INVESTMENT ATTRACTION AND TRADE PROMOTION IN ECONOMIC DEVELOPMENT: A STUDY OF GHANA WITHIN THE ECONOMIC COMMUNITY OF WEST AFRICAN STATES (ECOWAS)

LAWRENCE MENSAH AKWETEY

A thesis submitted to Middlesex University in partial fulfilment of the requirements for the degree of Doctor of Philosophy

Middlesex University Business School
2002

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ABSTRACT

At the first ever talks between leaders from developing countries and the G7 group of leading industrial nations in the year 2000, James Wolfensohn, President of the World Bank, said *"it is important that when the G7 address the issue of debt they address a range of inter-related questions including investment in developing countries and technology transfers."* To this end a call for partnership between the developed and the developing nations was made.

This thesis evaluates the importance of foreign investment and trade promotion in the economic development of Ghana as a country within the Economic Community of West African States (ECOWAS). The thesis specifically investigates the usefulness of development preconditions in attracting foreign investments into developing countries to boost the production and manufacture of semi-processed and manufactured goods to enhance exports, trade, economic growth and development with a view to reducing poverty margins.

Little research has been carried out on how development preconditions and trade promotion activities can be effectively used in developing Africa to forge the investment partnership between the developed and developing countries such as Ghana and the ECOWAS countries. In the light of recent alarming rates of poverty in Africa – mainly due to poor economic development– there is the need for a systematic evaluation of how Ghana and other African countries could employ development preconditions such as *Infrastructure*, low *Inflation* rates, good literacy levels *(Education)*, stable *Political* and *Social* environment to engender an enabling investment climate that would attract foreign investors to invest in their countries. The use of consistent trade promotion activities would also positively impact on export and trade for economic growth and development.

Lessons that Ghana as a country within ECOWAS could learn from the investment and trade success of the East Asian countries have been discussed in the study.

A *Ghana Investment And Trade Framework* is developed. This incorporates the possibility that development preconditions and vigorous trade and investment promotion activities influence increased Foreign Direct Investment (FDI) and the production of manufactured goods for export. These have the potential of expanding trade for increased economic growth in a country like Ghana.

The methodological framework for testing the two hypotheses of this study is based on two types of statistical techniques. In evaluating the proposition that development preconditions influence foreign direct investment attraction in Ghana, we rely on the use of econometric regression analysis using the MICROFIT statistical software. (i.e. the influence of the development preconditions of *Infrastructure, Inflation, Education and Political Stability* in the

period 1966-1998 (30 years) - in attracting foreign investment into Ghana. The second hypothesis, which links overseas trade promotion to FDI attraction was, however, tested using the discriminant analysis based on Statistical Programme for the Social Sciences (SPSS) software. This technique was also used to test the robustness of the findings based on the regression analysis in the case of the first hypothesis.

The thesis empirically assesses the impact of the selected development preconditions and trade promotion activities (Ghana's participation in overseas trade fairs) on the level of FDI attracted into Ghana during the specific time periods of between 1966 and 1997. The criteria used include the level of FDI levels attracted into Ghana for 30 years due to (a) the influence of existing development preconditions, and (b) the influence of trade promotion activities (Ghana's participation in overseas trade fairs). The latter was for 15 years (1985-1999) due to lack of data on the earlier years in Ghana.

The impact of the development preconditions of *Infrastructure*, *Inflation* and *existing FDI* on levels of new FDI attracted into the country were shown to be positive in the Regression Model. These results show that the presence of development preconditions in developing countries positively influence the level of FDI attracted into these countries. There was, however, no conclusive evidence that Ghana's trade promotion activities (Ghana's participation in overseas trade fairs) for the period had any clear and significant influence on FDI attraction into the country.

The findings of the thesis outline the importance and need for Ghana and other African countries to create significant development preconditions in their countries, in order to attract sufficient and significant foreign investments into their countries and help to boost the production of manufactured goods for trade and exports in order to enhance economic growth and development.

The conclusion is, therefore, that Ghana as a country within ECOWAS can achieve economic development through efficient investment (FDI) attraction policies and strategies; and the existence of vital development preconditions, and vigorous and intensive trade and export promotion activities (consistent participation in overseas trade fairs) could prove highly catalytic in this achievement.

ACKNOWLEDGEMENTS

First of all my gratitude and love go to my family, Comfort and the Kids, who have been very supportive during the duration of writing of this thesis. I am particularly grateful to my children, Akpene Yvonne and Kafui Michael - who missed many hours of continuous fatherly presence as I spent many hours away from home researching for the thesis – for their patience and endurance.

I wish to thank Mr. Budu Amoako, Ghana's Trade Commissioner to London, for the kind assistance and encouragement he accorded me in the preparation and writing of this thesis.

I wish to sincerely thank my supervisors, Dr G. Fahad and Professor Edgar Hibbert for the enormous help, direction, guidance and encouragement they gave me during the preparation and writing of this thesis. Many thanks go to Dr Mohammed Salisu of Lancaster University for his expert advice on statistical analysis.

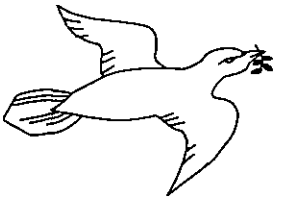
I also wish to thank the officials of the International Organisations and countries I visited in the USA and West Africa who supplied me with valuable information and materials for the study.

I also received moral support from my good friends, Charles Oyekami Abioye and Martine Spence, themselves PhD students at the time I was writing this thesis. I thank my church Home Prayer Group very much for their prayers, which have been invaluable. I am also grateful to the Africa Educational Trust for their financial support.

My parents, Sowah Davor Akwetey and Mary Adjoa Akwetey (all of Blessed Memory) deserve my special thanks for the excellent educational foundation they laid for me with much love and care, many years ago.

Finally, I thank everyone who in one way or the other contributed in his or her small way to help me complete this course of study and present this thesis in its present form.

God Bless You All.



D E D I C A T I O N

This Thesis Is Dedicated To God And My Dear Parents Of Blessed Memory

"Thy bountiful care
What tongue can recite?
It breathes in the air
It shines in the light
It streams from the hills
It descends to the plain
And sweetly distils
In the Dew and the
Rain"

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Appendices

Chapter 1 Introduction

1:0 Introduction

The thesis begins with the establishment of the roots of the issues and questions being addressed, such as whether the presence of development preconditions such as *Infrastructure, Inflation, Education* and *Political Stability* – sometimes described as the principal determinants of the location of Foreign Direct Investments (FDI) – contribute to increased FDI attraction in a developing[1] country such as Ghana within the Economic Community of West African States (ECOWAS); and whether trade promotion activities such as consistent participation in *Overseas Trade Fairs* in Ghana also influence the level of FDI attracted into the country.

Much of the discussion in this thesis refers to Ghana. Passing references are also made to the other ECOWAS countries as if it were a homogenous whole; of course it is not. Focus is mainly on Ghana as a country within ECOWAS. Distinction could be made to other ECOWAS countries on size, economy, trade and investment, wealth, etc. but there are severe limitations in any attempt to develop individual alternative strategies for each and every one of ECOWAS' fifteen countries on this basis. (ECOWAS countries are listed in Table 3-1). It would also be cumbersome to take into account relevant differences between each and every one of the fifteen countries of ECOWAS throughout the thesis' discussions. The International Monetary Fund (IMF)

[1] Developing countries have been used in the study to refer to all developing countries of Africa, Latin America and Asia. Ghana and the other African countries have also been referred to as LDCs.

and World Bank policies being initiated within ECOWAS countries are less differentiated, and hence there is no absolute need for country-by-country evaluation and analysis throughout the thesis. Finally, there are several commonalities between the ECOWAS countries that justify passing references made to the other ECOWAS countries as if they were a homogenous whole while the focus remains firmly on Ghana.

Since the most successful FDI attraction and trade promotion experience of developing countries has been in the East Asia countries – themselves developing countries – an additional question, which is addressed in exploring the issues, is whether Ghana and other ECOWAS countries would have any lessons to learn from the East Asian investment attraction and trade promotion success story.

The lessons from the East Asia investment and trade experience coupled with interviews conducted by the researcher in Ghana and London also form the basis of the development of a *Ghana Investment And Trade Framework* by the study.

This chapter, therefore, provides a general introduction to the research topic and its rationale. In sections 1.1 to 1.5, the need for investment attraction and trade promotion for economic development for developing countries such as Ghana in particular, and the Economic Community of West African States (ECOWAS) in general, are outlined.

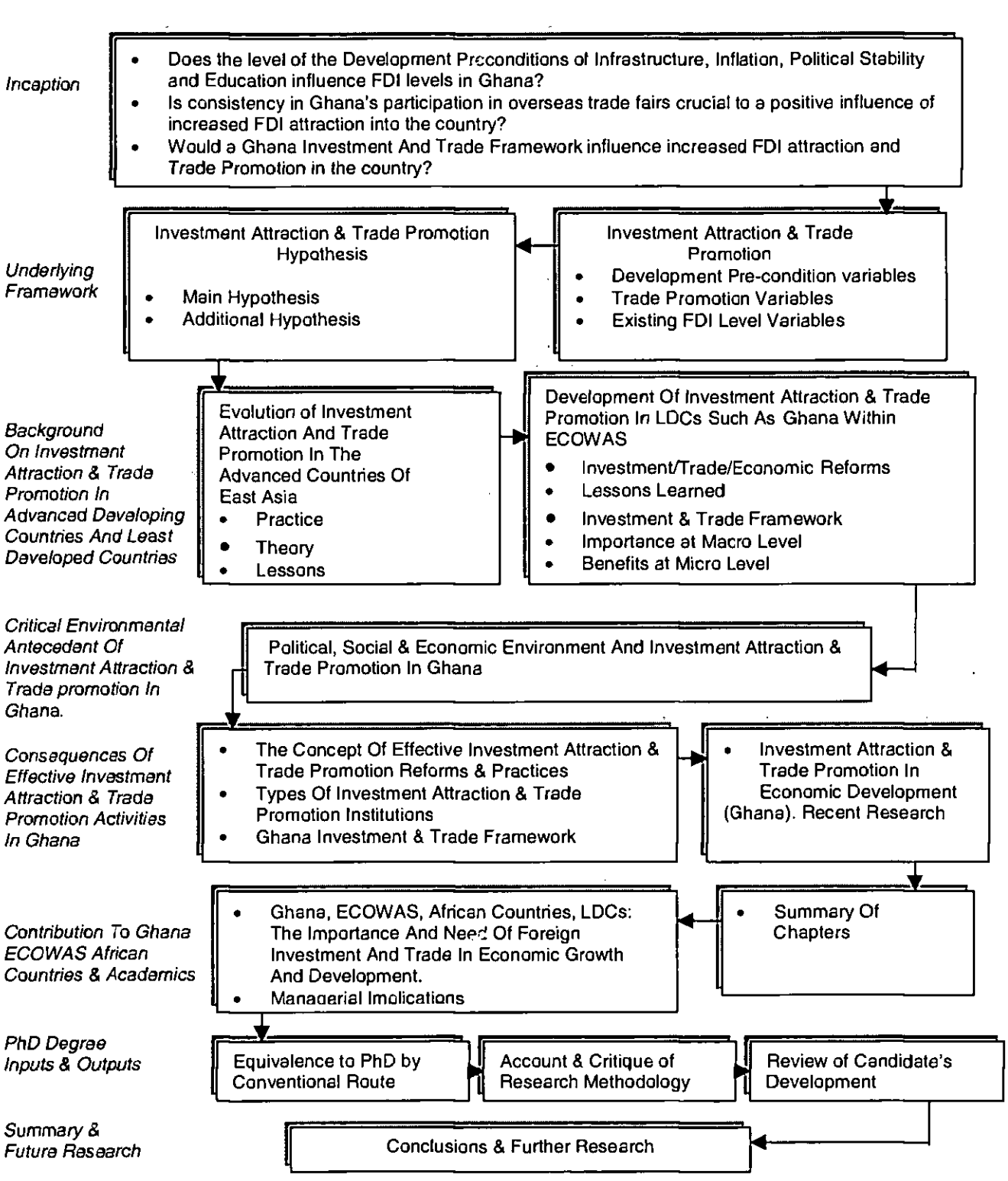
The section also reviews the need for investment attraction by developing countries in order to increase manufacturing and semi-processing of goods for export expansion towards economic development. The importance of

international trade in economic development and various approaches to trade promotion are also discussed.

Section 1.6 discusses the specific objectives of the research. In sections 1.7 to 1.9 the methodology used in conducting the study is discussed. Finally, section 1.10 of the chapter explains the structure of the thesis.

A route map for the introduction to the thesis is presented in Figure 1-1. This outlines the thesis focus from its inception, through the underlying framework, background, critical environmental antecedents, specific consequences to the contribution to Ghana, ECOWAS, African countries and academic work. The route map also outlines PhD inputs and outputs as well as research summary and future research.

Figure 1:1 Route Map For Introduction To Thesis



1:1 Investment Attraction

Most developing countries – particularly those of ECOWAS – currently experience very poor economies. In Ghana for example, there was no significant improvement in investment for economic development before the country's Economic Recovery Programme (ERP) in 1983 (Oduro, 1995). This was mainly due to the prevailing inadequate and unattractive investment climate during that time. This was exacerbated by the almost non-existence of the basic and vital development preconditions for economic development such as infrastructure, well regulated fiscal and macro-economic policies and practices and political stability among others.

There were also changes in the external economic environment such as the world-wide decline in the prices of the major primary commodities such as cocoa that Ghana and some other ECOWAS countries export. In addition, there was social and political instability – workers' unrest and coups d'etat in most of these countries – that did not make the region commercially and economically attractive for prospective foreign investors. The political changes in the former Socialist Bloc, also adversely affected the region's trade as demand for export commodities from these developing countries nose-dived.

In recent times, however, global trends in trade and economic development – initiated by the General Agreement On Tariffs And Trade (GATT) - now replaced by the World Trade Organisation (WTO) - tend to encourage the creation of a more open environment in trade world-wide, thereby effectively

eliminating some aspects of protectionism. Some developing countries have seized the opportunity to put together some investment attraction and trade liberalisation policies to practically "woo" potential investors from the developed countries to invest in their countries. Liberalisation and government efforts in some of these countries provide an adequate regulatory trading framework, which is a key factor in the attraction of foreign investors that set up factories for industrialisation, and enhance the production of manufactured goods for export.

In Ghana, changes in investment and trade policies were complemented by attempts to establish some of the basic development preconditions mentioned earlier and which are useful for investment attraction. From 1993 onwards, political and social stability, one of the most important development preconditions [Lim, (1983), Balasubramanyam (1984) Dunning (1973a), Hood and Young (1979), Lall and Streeten (1977) Ahiakpor (1990)] started taking root in Ghana having been earlier initiated by Constitutional Rule in 1992.

1:2 Trade Promotion

Developments in world trade in recent years – particularly globalisation – have caused some developing countries to review their trade and investment policies for economic development. There is increased awareness among some of these countries that protectionist trade and investment policies are not only beginning to be unproductive and unattractive to investors, but can also affect the harmony of international relations between trading partners. Consequently, some developing countries in East Asia, Latin America and

Africa have been encouraged to shift to the creation of a more open environment for international trade. Encouraged by GATT, who initiated and negotiated trade deals on behalf of most of these countries, this move resulted in the gradual reduction of some tariff barriers in some export markets such as the European Union (EU) as observed by the United Nations Conference on Trade And Development (UNCTAD: WIR, 1999).

As global tariff levels gradually declined, more and more developing countries have also abandoned Import Substitution (IS) trade and investment policies and moved towards more liberal regimes of trade promotion and open borders. This move represented, in effect, a significant step forward in investment attraction policy to which some industrialised countries were quick to react. In the industrialised countries themselves, various industry sectors have taken advantage of an emerging global customer to spread extensively across borders.

In the Least Developed Countries (LDCs) such as Ghana and ECOWAS, some benefits in investment attraction and trade promotion accrued as the International Monetary Fund (IMF) put in place programmes to restructure their industrial bases with emphasis on investment attraction and trade promotion; e.g. Ghana and the IMF's Structural Adjustment Programme (SAP) (World Bank, 1999).

This emerging liberal trade environment coupled with existing poor trends in their economies (most developing countries are keen to develop their

economies) prompted several developing countries to embark upon trade reforms by establishing new trade and investment policies. One facet of these trade and investment policies has been to encourage exports through more efficient trade promotion and investment policies as evident in most of the advanced developing countries of East Asia and Latin America.

Hibbert (1990) defines trade promotion as, *"...all government and inter governmental measures, by treaty or other arrangement to increase the value or volume of world trade, to open up market access by lifting import restrictions, lowering tariffs and reducing or eliminating any or other discriminatory measures restraining trade".* For developing countries, trade promotion is an instrument or vehicle of economic development. For the industrialised countries, it is a way of strengthening the competitiveness of the individual companies that invest in these countries.

For the foreign firms, these liberal trade policies coupled with lower factor and transportation costs serve as incentives to go and invest in these countries. But as discussed in the literature on FDI in the next chapter, there is much more that attracts FDI firms to invest in LDCs such as Ghana and the ECOWAS countries.

For the recipient country, however, some of the IMF's investment and trade promotion programmes aim at making these countries overcome the motivational, information and resource barriers often encountered by developing countries, especially the inexperienced local firms as observed by Kotabe and Czinkota (1992).

1:3 Types Of Trade Promotion

Jaramillo (1992) broadly classified the Trade Promotion Organisations (TPO) surveyed by the International Trade Centre in Geneva as two main types: (1) Public Organisations and (2) Private Bodies. The public organisations are more common and several organisational patterns exist among TPOs. Some are part of an existing governmental entity while others are autonomous or semi-autonomous institutions set up with specific objectives.

But as pointed out by Jaramillo (1992) the popularity of the autonomous institution derives from the fact that, *"it often is the most effective"*. One reason for this is that it tends to stimulate a closer relationship between the business sector and the TPO than is the case with a government ministerial unit.

Autonomous institutions ascribed to government ministries, local and overseas trade fairs and trade missions appear to be the more popular and frequently used approach for most trade promotion organisations. Other promotional mechanisms such as marketing boards are also used to complement the traditional TPO, although, in Ghana for example, these are now defunct. However, difficulties experienced by LDCs such as Ghana with trade fairs, observed by Huynen (1973) as trade promotion and FDI attraction agents for the LDC, are discussed in more detail in chapters 2 and 7 respectively.

This research also discusses how consistent participation in overseas trade fairs could enhance trade promotion. The study will show that inconsistency in this approach could impede the level of FDI attracted into a country.

The purpose of local and overseas trade fairs and trade missions is to encourage, through organisational means, the in-person visit between business and industry leaders in the various countries to allow participants to get acquainted with one another and explore mutual interests. They are also designed to introduce and expose business people at all levels to a number of potential customers, distributors, joint venture partners or agents in personalised and controlled settings in order to lay the groundwork for building future business and / or business relationships / partnerships.

The impact of trade fairs and trade missions on export outcomes and their use as trade / export promotion and investment attraction as widely examined by Couretas (1984), Kerin and William (1987) Blythe (1996), Pfeiffer et al, (1998), Shipley et al (1993) is encouraging. But as observed by Huynen (1973) for the LDCs such as Ghana and the other ECOWAS countries, there are limited possibilities of an effective trade fair exhibition on a Western model. Again this is discussed in more detail in chapter 2.

1:4 The Impact Of Trade In Economic Development

Meier (1976) emphasises the "importance" and "uniqueness" of the contribution that foreign trade can make to economic development. He continued to argue "*....there is nothing necessarily regrettable about dependence on foreign trade. It is true that in engaging in trade a country puts itself at the mercy of external events: this is the price that any international division of labour exacts.*" But as Meier (1976) later argues, a country that seeks economic development must invite foreign influences if it is

to succeed. The country needs foreign equipment, foreign capital and foreign ideas to enhance production of goods and services for both domestic consumption and export to enhance development. Without foreign influence, the questions can be asked: How can an LDC such as Ghana and the other ECOWAS countries pay for foreign equipment without earning foreign exchange by exporting? Or allow the economy of the country to be permeated with the ideas that are the seeds of economic development without the kind of contacts with foreigners that trade automatically produces? These assertions will be consistent with the study's argument for FDI and foreign trade throughout the subsequent chapters.

As Meier (1976) further argues, trade is no mere exchange of goods, least of all when it takes place in economies of LDCs such as Ghana at different stages of development. The study in subsequent chapters will demonstrate that foreign trade is particularly useful in countries that lack engineering industry and are obliged to import almost all their machinery. The study will argue that more often than not, trade gives birth to economic development, the knowledge and experience that make economic development possible and the means to accomplish it.

1:5 Need For Investment Attraction And Trade Promotion Programmes

Root (1991) defined trade promotion as *"public policy measures which actually or potentially enhance exporting activity at the company, industry or national level"*. For developing countries such as Ghana and the other ECOWAS countries, as argued by Meier (1976), it is an instrument of economic development of which they can fully take advantage. For industrialised countries, it is a way of strengthening the competitive competence of individual companies.

Crick and Czinkota (1995), Kotabe and Czinkota (1992) however questioned the effectiveness and efficiency of some of these programmes. As a consequence, the private sector, World Trade Organisation (WTO) and some academics have performed a number of evaluation studies such as UNCTAD's annual World Investment Reports. But government support for investment attraction and trade promotion programmes in LDCs can be a useful tool for improving existing development programmes, reallocate resources to more profitable and investment attraction programmes or establish new ones in response to industry requirements.

Ghana launched her Economic Recovery Programme (ERP) in 1983. It heralded the birth of investment and trade reforms in the country (See Chapter 3). Most of these reforms were tied in with the establishment of relevant development preconditions as instruments and principal determinants for attracting investments into the country. These investments stand to help

Ghana's manufacturing base to expand and possibly exert a positive impact on Ghana's investment, trade and export promotion efforts, which could enhance economic growth and development in the country.

Although there are some difficulties with evaluation and measurement, the study finds it absolutely necessary to scrutinise and prove the efficiency of and the relationship between development preconditions and investment attraction in Ghana - a LDC in Africa. Also the relationship between Ghana's trade promotion activities (Overseas Trade Fairs) and the level of FDI attracted into the country will be proved.

A study on the establishment of a firm relationship between specific development preconditions, investment attraction and trade promotion in Ghana can be a useful tool as well as a reference point for other African countries in their search for opportunities in the economic development process. Furthermore, it would serve as a significant point of awareness for leaders of LDCs, particularly Africa, that stable social and political climates, which in turn facilitate efficient macro-economic policies, increased utilised government expenditure on infrastructure, education, etc. are vital development preconditions which are highly necessary for investment attraction and trade and export promotion in economic development.

1:6 Objectives Of The Research

In West Africa, studies such as this project should prove invaluable because of its potential to establish a useful link between some specific and useful

development preconditions and investment attraction and trade promotion for all ECOWAS countries. But very little time has been devoted to the subject in the region. Instead, this subject area has been clouded and superseded by other issues within the region, notably civil wars, political power struggles and peacekeeping prerogatives. It will be argued that the persistence of political instability impedes the establishment of effective development conditions for investment attraction and economic growth.

Outside West Africa, empirical studies in this specific area - i.e. the link between development preconditions, investment attraction and trade promotion in African LDCs – are scarce.

Empirical studies in similar fields have been done establishing relationships between *export growth* and *economic growth* (Michaely 1977a, Balassa 1978, 1984, Williamson 1978, Fajana 1979, Tyler 1981, Feder 1983, Kavoussi 1984, Jung & Marshall 1985, Moschos 1989 and Salvatore, 1989). The fundamental theoretical framework and structure of this thesis, based on investment attraction and trade promotion, export and economic growth and development theory and practice, mainly in developing countries is exhibited in Figures 1-1, 2-1, 2-2, 2-3, 4-1, 4-2 , 5-1, 5-2, and 5-3. These illustrations are vital in explaining the content, structure and importance of the work and contributions presented in the thesis.

Although these propositions do not constitute an exhaustive list, they nevertheless provide a significant picture of related investment attraction and trade promotion and economic development issues, which are vital for the

development of LDCs such as Ghana and the other ECOWAS countries. The empirical works in the thesis and their respective propositions may provide guidelines to some governments of the developing countries of Africa's enquiries and searches for development, particularly in their quest for FDI attraction to help manufacturing for export and to increase trade, thereby enhancing economic development. Where this is achieved, poverty is severely dented, and this is what developing Africa really needs.

Consequently, it is useful for developing countries like Ghana and other ECOWAS countries to have access to empirical evidence on, for example, whether the existence of sufficient development preconditions and consistent participation in overseas trade fairs influence the levels of FDI attracted into these countries. If they do, how does the evidence impact on manufacturing, trade, export and economic development in these countries? Also, these works may shed some light on questions and issues on the relevance of FDI in developing economies, and also what the future holds for investment attraction, trade promotion, economic development and further research.

These are critical concerns, which can be perplexing, particularly if they are not examined in the specific and broad areas that the above questions address.

Lim (1983) undertook a study in a similar field by conducting an empirical study on whether or not there is a relationship between fiscal incentives and FDI in LDCs. Balasubramanyam (1984) also conducted an empirical study showing the relationship between incentives and disincentives for FDI in

LDCs. But again, none of these studies - directly or specifically – empirically showed the possible relationship between specific development preconditions and investment attraction and trade promotion in an African LDC such as Ghana. More so, most of the studies described above concentrated on the advanced developing countries of East Asia and Latin America. For example, Fry (1993) in his study of FDI in a Macroeconomic Framework highlighting *finance, efficiency, incentives* and *distortions*, concentrated on the advanced developing countries of Argentina, Bermuda, Brazil, Chile, Columbia, Egypt, Hong-Kong, Indonesia, Korea, Malaysia, Mexico, Philippines, Saudi Arabia, Singapore, Taiwan, Thailand, Turkey and Venezuela. The only ECOWAS country represented was Nigeria. This study, therefore, proposes to utilise the research opportunity discussed above, with specific reference to Ghana within ECOWAS, to carry out the objectives outlined below.

The objectives of the study, therefore, are:

(i) to find out the lessons that Ghana, as a developing country within ECOWAS, can learn from the investment and trade reforms in East Asia

(ii) to propose an Investment and Trade Framework for Ghana

(iii) to empirically investigate the relationship between Ghana's development preconditions of *Political Stability, Infrastructure, Education* and *Inflation*, and FDI attraction in Ghana.

(iv) to empirically investigate the relationship between Ghana's *Trade Promotion* activities (participation in *overseas trade fairs*) and *FDI* attraction into the country.

There are two main ways in which the principal objectives in (ii), (iii), and (iv) have been approached: (1) the interview method, relying on answers given by officials of the FDI-promoting institutions in Ghana and London as well as exporters. This also forms the basis for the *Ghana Investment And Trade Framework* suggested in Figure 5-3; and (2) the econometric method using statistical techniques and available data to determine the important factors (development preconditions) that mostly influence increased FDI attraction into Ghana.

In summary, the study will demonstrate that the presence of development preconditions in an LDC such as Ghana has positive influences on the attraction of FDI into the country; it will also show the relationship that exists between Ghana's trade promotion activities and FDI attraction into the country. The thesis' original contribution to existing knowledge stems from the disciplined study of investment attraction (FDI), trade promotion, development preconditions, (*infrastructure, inflation, education, political stability, overseas trade fairs*) their theories, principles and practices in an LDC such as Ghana over a period of thirty years, and their influences on increased FDI attraction and economic development in the context of the economy of LDCs.

Hence the intellectual basis for the thesis is derived from the design of the *Ghana Investment And Trade Framework*, the empirical evidence derived from statistical data, tested and analysed and supported by facts and figures.

1:7 Methodology

In order to fulfil the above objectives, both secondary and primary data were used. The secondary data gathering took the form of a literature review mainly from documentary sources – published information from relevant institutions in Ghana as well as from world organisations such as the IMF, the World Bank, ITC/WTO and UNCTAD, academic journals and relevant reference books. Information from the Ghana Statistical Service and the Bank of Ghana (Ghana's Central Bank) proved extremely useful.

Primary data for the research was gathered through face-to face interviews carried out in Ghana and London. (See chapter 5).

From these considerations, a *Ghana Investment and Trade Framework* delineating the possible relationship between development preconditions, investment climate, trade promotion, investment attraction (FDI), manufacturing for exports and economic development is proposed in chapter 5 of the study. This framework is used as background for the development of hypotheses.

The hypotheses developed in chapter 5 are tested in chapter 7 of the study, which discusses the empirical evidence of Ghana's investment attraction and trade promotion.

1:8 Data Collection Process

In order to develop the formalised *Ghana Trade and Investment Framework* described above, it was necessary to collect a large amount of data. Similarly, in establishing the empirical evidence, it was necessary to collect a

large amount of information from the Ghana Statistical Service, the Institute of Social, Statistical and Economic Research (University of Ghana), the Bank of Ghana and the Ministry of Finance and Economic Planning.

Data for the Ghana Investment and Trade Framework was collected mainly from interviews as well as secondary data from the Ghana Ministry of Trade and Industry, Ministry of Finance and Economic Planning, the Ghana Investment Promotion Council (GIPC), the Ghana Export Promotion Council (GEPC) the Ghana Free Zones Board (GFZB), The University of Ghana, and the Ghana Trade Commission in London.

1:8:1 Criteria For Choosing Organisations

The particular institutions selected for interviews were chosen based on past experiences and performances in investment, trade and export. Experiential knowledge is believed to be appropriate for less structured but well defined environments in the fields of trade and export management. For example, Johanson and Vahlne (1977) explained the importance of experiential knowledge for market expansion thus: *"....on the basis of objective market knowledge, it is possible to formulate theoretical opportunities; experiential knowledge makes it possible to perceive "concrete" opportunities – to have a feeling about how to fit into the present and future activities."*

In the same vein of thought, researchers in psychology have demonstrated that attitudes based on direct experience (experience with information and guidance on Ghana's investment projects, trade, FDI in more detail and wider

perspective across many industries and firms) are more likely to serve as guides to lasting behaviour than are attitudes based on industrial experience (experience with information and guidance based on a single narrow industry) (Fazio and Zanna, 1981). In addition, the ability of these institutions to contribute efficiently and constructively to the research through useful in-depth interviews was also considered.

Moreover, it is in the remit of these institutions and organisations to develop policies, which encourage and promote foreign investment, industrialisation and the diversification of exports. It also covers those that could supply the necessary inputs for vigorous trade and export promotion activities.

Furthermore, these institutions were selected depending on their reliability and credibility. e.g. whether staff employed are sufficiently trained, skilled and knowledgeable to provide adequate and reliable relevant information.

1:9 Data Analysis

Data was analysed using the Micro Fit (MF) and Statistical Package for Social Sciences (SPSS) to produce regression and other statistical values, which provided results for the tests of the hypotheses guiding the study.

The variables employed in the analysis of data included *Dependent* and *Independent* variables. The *Independent* variables identify the statistical values of selected development preconditions as well as Ghana's participation in overseas trade fairs, with emphasis on consistency. The *Dependent*

variable shows the level of change in foreign investments (FDI) attracted into the country mainly in response to the values of the *Independent* variables, which represent the selected development preconditions mentioned above.

1:10 Organisation Of The Study

The study is organised in 7 main stages.

Stage 1: This stage introduces the research problem and uses published literature to investigate the objective of the research by looking at types of government TPOs, some of their programmes, their structure and how they influence investment attraction and export expansion in different countries.

Stage 2: This stage makes a critical analysis of relevant theories and models in the areas of foreign direct investment, trade, industrial development (Export Promotion and Import Substitution) as well as the model on development preconditions (including investment climate).

Stage 3: Stage 3 of the study examines how far some of the theories discussed in stage 2 link up with Ghana's policies and practices in the areas of, FDI (investment attraction) trade, and industrial development. It also discusses Ghana's establishment of development preconditions and the level of investment climate these achievements have helped to engender.

Stage 4: This stage compares evidence on East Asia's successful trade reforms ("The East Asia Trade Miracle") with what prevails within a developing

country like Ghana in particular, with some references to other ECOWAS countries. Lessons to be learned by Ghana from the East Asia trade success story (as stated in the first objective of the study) are also discussed.

Stage 5: This stage describes the researcher's surveys and interviews with respondents from relevant institutions and organisations in both Ghana and London. Based on the analysis of data gathered from the fieldwork interviews, the study develops a research methodology – a formalised model the *Ghana Investment and Trade Framework* (as stated in the second objective of the study) around which subsequent discussions within the study are built.

Stage 6: This stage discusses the economic and trade structure and performance in Ghana. It also conducts an empirical investigation into the relationship that exists between some of Ghana's development preconditions and investment attraction for 30 years, and trade promotion - overseas trade fairs - for 15 years. The hypotheses guiding the study are tested at this stage.

Stage 7: This stage makes an analysis of all research findings. It then uses the newly formalised model of the Ghana Investment and Trade Framework and the empirical evidences gathered as the basis on which conclusions and recommendations are made.

1:10:1 Plan For the thesis

The study is divided into eight chapters.

Chapter 1: This is the main introduction to the study. It sets the study's background, its objectives and outlines the research problem.

Chapter 2: This chapter reviews the available literature on the research topic by discussing some of the theories related to it.

Chapter 3: Chapter three examines Ghana and Ghana within ECOWAS and links the discussions here with the literature and theories examined in chapter 2.

Chapter 4: A comparison is made of the evidence of the successful investment and trade reforms in East Asia with investment and trade reforms within LDCs' trading communities such as Ghana within ECOWAS. Lessons that Ghana (as an ECOWAS member country) can learn from some of this evidence are discussed. The East Asian financial crisis of the late 1990s is also discussed.

Chapter 5: A formalised model of the Ghana Investment and Trade Framework is developed. This is a result of face-to-face interviews conducted with relevant government officials. The rationale for choosing the face-to-face method of interviews in gathering data is also explained.

Chapter 6: The economic and trade structure and performance in Ghana is discussed. The investment climate of the country is also evaluated.

Chapter 7: The empirical evidence available on Ghana's development preconditions, of Infrastructure, Education, Inflation, Political Stability and Overseas Trade Fairs and investment attraction and trade promotion is discussed. Also the hypotheses developed in the study are tested.

Chapter 8: This chapter summarises all the evidences, discussions and analyses and provides conclusions and recommendations.

1:11 Conclusion

This introductory chapter highlights the rationale for the research issues under investigation. The types of and the need for investment and trade promotion programmes in economic development have been highlighted and the process involved outlined. The objectives of the research have been discussed and the methodological approach used reviewed. The chapter ends with the various stages and outline for the thesis.

Chapter 2

A Review Of The Literature On Foreign Direct Investment, Trade, Industrial Development And Development Preconditions

2.0 Introduction

This chapter provides background to the research by reviewing some of the relevant literature, theories and models in the fields of Foreign Direct Investment (FDI), trade, industrial development, and development preconditions including investment climate.

Section 2.1 reviews some of the literature and theories relating to FDI in the context of definition and accounting, motivation, location, attraction, effects and the general impact it has on economic development, particularly in LDCs such as Ghana within ECOWAS.

Section 2.2 gives an overview of the literature on the international trade process. The section examines, among others, the "general equilibrium" model of trade, 'New' international theories, gains from trade, trade fairs, as well as the "technology-based" model of international trade. The latter is mainly within the context of technology transfers and applicability.

Section 2.3 reviews generally some of the literature relating to industrial development and economic growth by discussing some of the strategies of industrial development usually employed by countries in pursuit of FDI to improve manufacturing, trade and economic growth. e.g. Export Promotion (EP) / Orientation (EO), Import Substitution (IS) and Exchange Rates (ER).

Section 2.4 reviews the literature on the model of development, stages of development, and some specific development preconditions. The section also discusses the importance of the investment climate.

2:1:0 Foreign Direct Investment (FDI)

2:1:1: Introduction

The growth of FDI inflows into developing countries such as Ghana and other ECOWAS countries can have the potential of being catalytic to the expansion and strengthening of the production base of semi-processed and manufactured goods in these countries. FDI has also remained a source of relative stability in capital flows to developing countries, in that it makes available capital, technology and skilled labour to help manufacturing in these countries. Developing countries, not surprisingly, are continuing their efforts to create favourable conditions to attract FDI using bilateral treaties, with regional initiatives gaining momentum.

However, figures published by the United Nations Conference On Trade And Development (UNCTAD) in 1998 show African countries' inward flow of FDI

between 1985-1997 to be comparatively lower than those of other developing regions, such as Latin America and the Caribbean. (See Table 2-1 below).

Table 2-1 Regional Distribution of Inward FDI Stock To Developing Countries: 1985, 1990, 1995 and 1997 (%)

Region / Country	1985	1990	1995	1997
Developing Countries	***27.7***	***20.6***	***28.1***	***30.2***
Africa	3.1	2.2	2.1	1.9
Latin America and the Caribbean	10.1	7.1	10.2	10.9
Developing Europe	0.1	0.1	0.1	0.1
Asia	14.3	11.1	15.6	17.2
West Asia	5.7	2.8	2.1	1.7
Central Asia	-	-	0.1	0.2
South, East and South East Asia	8.6	8.3	13.4	15.3
The Pacific	0.2	0.1	0.1	0.1

Source: (UNCTAD) World Investment Report 1998.

Table 2-1 shows that, while the percentage of FDI inflows attracted into the developing regions of Asia, Latin America and the Caribbean show trends of increase particularly from 1990 onwards, those of the African developing region had been shrinking. Could this be due to Africa's inability to put together the principal determinants of the attraction and location of FDI to attract foreign investment into the region? In whatever way it is viewed, Africa needs to review, research and find out efficient ways of attracting FDI into the region to enhance economic development (Ahiakpor, 1990).

Linking this to the research topic, these 'efficient ways' of attracting FDI into Ghana within ECOWAS is paramount to what the research has set out to explore: investment attraction and trade promotion in economic development.

The research focus aims at helping Ghana, ECOWAS and all Africa to determine some of the crucial inputs that need to be developed in the region to facilitate efficient investment attraction for development. But the questions that perhaps need to be answered first include: What is Foreign Direct Investment? What influences FDI firms to invest abroad? In other words what attracts FDI into Africa's LDCs such as Ghana and the other ECOWAS countries? What conditions in the host countries determine the location or attraction of FDI? What is the impact of FDI on economic development? The following sections discuss these issues in some detail.

2:1:2 Definition And Accounting

Spar and Kou (1995) define FDI as capital transferred between a non-banking firm and its newly established foreign affiliates. Theoretically, the investment itself can take a number of forms ranging from a hostile take over to a joint venture, or a new or "greenfield" operation. In concept, FDI is distinguished only by the control acquired by a foreign entity. In other words, and as the IMF defines it, *"....an investment that is made to acquire a lasting interest in an enterprise operating in an economy other than that of the investor, the investor's purpose being to have an effective voice in the management of the enterprise."*

Spar and Kou (1995) question what constitutes an "effective voice?" Most governmental agencies classify a foreign investment as "direct" when a single investor acquires as little as 10% of a foreign firm. From that point on, the

controlled firm is generally considered a foreign affiliate or subsidiary of its overseas 'parent'. Often, however, the statistical relationship between subsidiaries and parents belies their relative positions. Spar and Kou (1995) again question the accuracy of this definition and argue that statistics on FDI can deceive in other ways as well, since the nature and intent of the investment is rarely evident in the numbers themselves. They further argued that not all investment capital is captured in the measurement of FDI. In fact, under prevalent IMF guidelines, FDI consists only of (a) new equity purchased or acquired by parent companies in overseas firms they are considered to control (b) re-investment of earnings by controlled firms and (c) intra company loans from parent companies to controlled firms.

Under these definitions, several increases in foreign control simply do not count. If a foreign parent funds its acquisition by borrowing in the local market, for instance, or if it increases its holding via stock exchange with a local subsidiary, the investment is not officially registered as FDI. Thus, the element of FDI that is presumably of greatest interest – the increase in local assets under foreign control – is not easily discernible. Similarly, in calculating the total sum of foreign controlled assets, the stock of FDI is equally difficult to discern since assets have been customarily computed on historical cost basis. That is a plant or firm purchased in 1914, for example, stays on the books at its original price regardless of the increase in its current nominal value. Equally, capital gains and

price increases are both systematically ignored, leading to a global understatement of FDI that varies significantly with the age of investments.

2:1:3 The Motivations For Foreign Direct Investment (FDI)

The foreign direct investment decision process, complex as it is, is a succession of acts rather than a single identifiable act (Aharoni 1966). This section of the study seeks to examine three main elements of this multidimensional and evolutional process. These are:

(i) the factors that motivate the firm to engage in production abroad

(ii) the factors that influence the firm's choice of location

(iii) the factors that determine the firm's international entry mode

Development economics literature lists many reasons why FDI firms or companies invest in other countries such as the LDCs of Africa. While the above listed issues are by no means exhaustive, this study asserts that these constitute the main issues that confront strategic planners of business enterprises. The discussion in this section has no relevance to sequencing of the decision making process. Some researchers argue that the decision to engage in production abroad precedes the decision on location. The three issues are discussed interdependently and, as mentioned earlier, do not attempt a sequencing of the investment decision-making process. Rather, the analysis postulates these three elements as critical variables of the decision to engage in international production.

In the following sub sections, the study will attempt to analyse the various FDI theories that purport to explain the above listed three elements of the foreign investment decision process. They will examine the theories that seek to explain the motivations for the firm's decision to engage in production abroad.

2:1:3:1 Theories On The Motivations For Foreign Direct Investment

Many theorists since the 1960s have been grappling with the question of why the individual business engages in international production. This study has identified four theories in the Foreign Direct Investment (FDI) literature that attempt to explain the firm's motivations for FDI. These are:

(i) the monopolistic advantage theory

(ii) the oligopolistic reaction theory

(iii) the internalisation theory

(iv) the eclectic paradigm

2:1:3:1:1 The Monopolistic Advantage Theory

The theory of international production dates from 1960 when Hymer, in a doctoral dissertation eventually published in 1976, showed that the orthodox theory of international trade and capital movements did not explain the foreign operations of Multi National Companies (MNCs) (Cantwell *et al* 1986). In making the vital distinction between portfolio investment and FDI, Hymer deviated from the international capital movement approach that was adopted by previous theorists. He argued that the difference between portfolio investment and direct investment

lies in the issue of control; control being defined as investor owning more than 25% of the equity of the foreign enterprise (Hymer 1976).

It is in the same vein that Hymer posited that if the investor directly controls the enterprise, the investment made is considered to be direct investment; if he does not, it is a portfolio. In this way, Hymer rejected the portfolio investment theory with its simplifying assumptions of a lack of risks, uncertainties and barriers to the movements of capital, as an explanation for foreign direct investment. Instead, he argued that FDI occurs in imperfectly competitive markets and adopted an industrial organisation approach to explain the process of international production.

Hymer's hypothesis was that firms would engage in FDI once they have advantages, for example finance, cost, product differentiation or superior distribution networks that are not possessed by their domestic competitors.

Hymer's theory of the firm also sees FDI as a means by which producers increase the extent of the market power. Basing his arguments on Bain (1956), he views the firm as actively raising entry barriers (monopoly) and colluding with other firms in the industry. He further argued that the possession of such monopolistic advantages is a necessary condition for FDI, since the foreign firm is at a disadvantage vis-à-vis the indigenous ones. The local firm has knowledge of the local market conditions, legal and institutional framework of business, linguistics and culture, which the foreign firm can only obtain at a cost. The

foreign firm also incur costs from operating from a distance, which is mainly the result of operating in an unfamiliar environment. Thus, Hymer argued that if production abroad must be profitable, the foreign-owned firm must possess certain advantages over domestic ones.

Several other theorists have expanded on Hymer's work. Kindleberger's (1969) interpretation of the Hymer story placed it more firmly in the industrial organisation tradition, which revolves around the structure-conduct-performance model. Kindleberger (1969) sees FDI as a function of market structure characterised by monopolistic competition between differentiated products. Under such circumstances, the industry will shift from numerous firms that are small and competitive to one characterised by a few large, vertically integrated enterprises.

Kindleberger (1969) details the nature of monopolistic advantages that the foreign investor (FDI) may possess over domestic competitors. He indicates that these advantages may arise in the goods market (product-differentiation, superior marketing and distribution skills); in the factors market, (preferential access to capital, restricted technology and superior managerial skills); and in the ability to achieve vertical and horizontal integration.

Kindleberger (1969) also states that monopolistic advantages may arise through the actions of government in the host country. In restricting imports, the government may inadvertently stimulate FDI.

The more recent writings of Newfarmer (1985) and Cowling and Sugden (1987) have moved back towards the Hymer stance, in that while their argument is set in an industrial organisation context, they emphasise the (anti-competitive) impact of FDI on host country market structure.

Vernon (1966) also agrees with the notion that it is a firm's possession of monopolistic advantages over its foreign competitors that determines FDI. To this extent, he argued that the monopolistic advantage, which he identified as the ability to innovate and produce new products, is determined by the structure of the market and the factor endowments of the home country.

Caves (1971, 1974) also embraced the notion of the firm possessing monopolistic advantages - which he terms 'unique assets'. According to him, the advantage which product differentiation conveys to the foreign producer is the difficulty that the local competitor will meet in reproducing since it is protected by trade marks and brand names. In addition, Caves (1971, 1974) extends the term 'differentiation' to include the possession of managerial, financial and innovative skills as well as privileged access to the factors of production.

Theorists advanced the monopolistic advantage theory from the developed world to explain the phenomenon of FDI occurring among industrialised economies. Consequently, it not surprising that many other theorists argue that this theory is not an adequate explanation for the FDI undertaken in developing countries.

Hood and Young (1979) argued that the monopolistic advantage theory rather explains the FDI made by the United States of America multinational enterprises during the post World War II period. They further question whether the MNC needs to posses any advantage when investing in developing countries, since it is confronted with little domestic competition. Hood and Young (1979) cited the example of Japanese ventures in developing countries that are faced with few, if any, formidable local competitors.

Another school of thought has suggested that FDI is not motivated to enter LDC markets because of, as they argued, the limited impact that their monopolistic advantages has on domestic competition.

Vachiani's (1985) analysis of the product market choices of MNCs in India reveals that MNCs were discouraged from entering the LDC segments of the dentifrice and tractor industries. He argued that in the lower income segment the MNC's possession of a monopolistic advantage, which he described as product differentials, had little impact on competition. In fact, Vachiani (1985) argued that the LDC segment was not 'hospitable' to the products of MNCs; hence the MNCs were deterred from entering that segment of the market.

Lall and Mohammed (1983) support Vachiani's argument on the insignificant role that product differentiation plays in determining MNCs involvement in India. They, however, acknowledged that the advantages of sophisticated technology and scale are important influencing factors in motivating FDI into India.

Lall and Mohammed (1983) observed that a restrictive policy market environment within a country could impede the MNC's use of monopolistic advantage in international production. Thus, citing the example of India, they revealed that because of the strict controls the country imposed on foreign entry during the 1970s, little foreign involvement was found in the capital-intensive activities where the MNC was believed to posses 'special' advantages.

Aswicahyono and Hill (1995) also explored the impact that a restrictive policy environment has on the MNC's use of its monopolistic advantages. They argue that the monopolistic advantage theory does not fully explain the FDI in developing countries. Basing their arguments on their examination of foreign involvement in Indonesia, they argued that the MNC's use of product differentiation is limited since advertising is heavily restricted and the consumers are more price sensitive than their counterparts in the industrialised world. Still using Indonesia as their base, Aswicahyono and Hill (1995) argued that the MNC's use of technology was not very important since the manufacturing sector in Indonesia is dominated by labour-intensive, low value-added activities.

It is now open to question whether the monopolistic advantage theory provides an appropriate explanation to the motivations for FDI or the MNC's involvement in LDCs such as Ghana and the other ECOWAS countries. Unlike the Caribbean where the market is rather small with a population of about 6 million, Ghana and the ECOWAS trade region is large with a population of over 300 million people.

The governments ot these ECOWAS countries are keen to welcome FDI in large numbers into the country. This means there are very little, if any, restrictive policies to foreign investors in these countries. Therefore, the notion of MNCs engaging in FDI to exercise its unique advantages of product differentiation over local competitors can be a possibility. In addition, Ghana, Nigeria, Cote d'Ivoire and other selected ECOWAS countries have dynamic entrepreneurial classes which engender efficiency in domestic businesses that have long been opened up to international competition through various government diversification programmes. Hence it seems the monopolistic advantage theory could just explain FDI activity in LDCs such as Ghana and within the ECOWAS region.

2:1:3:1:2 The Oligopolistic Reaction Theory

Recent economic theories on FDI, and in particular the growth of *Multi National Companies* (MNCs), have been based on another strand of literature which holds the view that international production is the result of a firm's strategic reaction to the anticipated behaviour of its oligopolistic competitors. Several theorists did make passing mention of this phenomenon (Aharoni 1966, Caves 1971). Yet others have discussed it in some detail.

Cantwell (2000) views the earliest oligopolistic theories of international production (in the rivalrous other than the market power sense) as the later versions of the product cycle model (PCM). In 1971, Vernon recognised that the original PCM was losing its explanatory capacity, and in 1974 suggested a

modified version, which introduced oligopolistic considerations (Vernon, 1971,1974a). He argued that the reason for relocating production abroad (FDI) as a product matured was no longer a matter of simple profit maximisation in the face of a changing pattern of demand as income levels in other countries caught up. Thus the emphasis shifted towards risk-minimising strategies with the aim of avoiding price warfare in a mature oligopoly. Thus market security became a more important consideration for the firm relative to profitability. Vernon argued that this led to cross-investment (that is, intra-industry production) to reduce the threat of subsidiary price cutting in the domestic market of the large firm, despite the potential cost-minimising benefits of concentrating production in just one or a few locations.

This idea of intra-industry production as an 'exchange of threats' became crucial to the work of Graham, (1985, 1998). According to Graham, oligopolistic interaction between the firm in an industry increases as firms grow, since (following product cycle reasoning) the capital-intensity of production rises and economies of scale become more important as the product line matures. As the ratio of fixed to total costs rises, the consequence of rivals adopting aggressive price-cutting strategies becomes potentially more damaging. Consequently and as observed by Rothchild (1947), the firm would have to accept some trade-off between security and profitability.

The notion of oligopolistic interaction can also be combined with various other non-product cycle ideas on the firm. Sanna-Randaccio (1980) combined

oligopolistic interaction with Penrose's (1959) theory of the growth of the firm. She hypothesised that the ability of a firm to gain an increasing share of an individual market through local production was a function of the share of that market already held. She argued that firms with a smaller existing market share would be able to grow rapidly with a lower risk of setting in motion a damaging competitive warfare.

Despite these arguments, it was Knickerbocker (1973) who examined this theory in relation to investment (FDI) behaviour at length. Basing his analysis on the behaviour of United States of America manufacturing firms during the 1948 to 1967 period, Knickerbocker (1973) concludes that the risk-avoiding members of an oligopolistically structured industry will follow one another into any substantial foreign market in which one of them has set up production. He argues that in so doing, oligopolists are protecting the exploitability abroad of the special firm-specific capabilities (technical and organisational skills) they acquire at home.

Knickerbocker (1973) continues to argue that a rival firm's moves into a foreign market not only could threaten the corporate earnings of the other oligopolists, but also could result in it acquiring competitive assets far in excess of those it already possesses. He then observes that the defensive investment undertaken by the other oligopolists serves to maintain the balance of competition within the industry.

Knickerbocker's oligopolistic reaction theory holds considerable intuitive appeal as an explanation of the motivations for the FDI in the primary sector as well as

some segments of the manufacturing sector of developing countries like Ghana and the ECOWAS region. Vernon (1983) observed that this investment behaviour, which has been described as 'follow the leader', was in practice in the semi-conductor industries of South–East Asia and the raw material industries of several developing countries. Thus it would be really interesting to determine the extent to which this theory explains the motivations for the FDI involvement in Ghana's primary sector (gold, diamonds, bauxite, manganese, oil and gas, cocoa, timber) as well as the country's manufacturing activities that are intensive in the use of low-cost labour.

2:1:3:1:3 The Internalisation Theory

Another group of theorists sought to provide an alternative interpretation to the Hymer-Kindleberger-Caves industrial organisation approach. Indeed, these theorists attempted to explain why the firm becomes involved in international production instead of selling its advantages to foreign competitors. Thus there was now a switch of emphasis away from the act of FDI to the institution that is making the investment, the MNC. This is the theory of internalisation as posited by Buckley and Casson (1976); Casson (1979); Rugman (1980a, 1980b, 1985); and Buckley (1987).

This modern theory of the 'internalisation' of markets as it is applied in the case of international production is based on Coase's (1937) criticism of neoclassical economics. Coase (1937) postulated that there are certain conditions under

which it will be more efficient for the firm to create an internal market than the use of the existing one. Williamson (1975) extended Coase's work through the adoption of nomenclature of markets and hierarchies. The theory was further developed and applied to the behaviour of MNCs by MacManus (1972) and later with researchers associated with the 'Reading School' such as Buckley and Casson (1976), Rugman (1980a, 1980b, 1985) and Hennart (1986).

The advocates of the internalisation theory argue that a firm will internalise the production of intermediate goods and services whenever their markets fail. Market failures arise due to the absence of a futures market, the firm's inability to exercise discriminatory pricing, and limited information dissemination. Internalisation can also occur because of locational factors and government and tax interventions.

Buckley and Casson (1976) also argue that the firm will engage in international production if it perceives that the net benefits of its joint ownership of domestic and foreign activities exceed those offered by the market. Moreover, it is argued that the firm will internalise markets until the costs of further internalisation outweigh benefits.

Advocates of the internalisation approach have also recognised the possibility that FDI firms may increase profits through the restriction of competition in final product markets, and that this may offset the generally superior allocation of resources associated with the activities of these firms. Cantwell (2000) observes that the emphasis in the internalisation process is on achieving profit

maximisation through the efficient exchange of intermediate products rather than through the exclusion of (potential) rivals in the final product market.

Hymer perceived that the MNC could profitably create entry barriers by exercising the Bain-type advantages discussed earlier in the section. By contrast the internalisation theory postulates that the firm, in response to transactional market failure, effectively deploys these advantages. It is only when such internalisation is conducted internationally that the MNC is created.

Other internalisation theorists have treated the alternative to international production as being the licensing of a local firm (or inter-firm trade in intermediate products), or exports from the home country (and no local production). The market power school has instead treated the alternative as being independent local production, which is driven out or diminished by the direct local presence of the MNC (or to a lesser extent, by its licensing a local competitor). In this respect, Cantwell (2000) observes that it is quite possible for work in the internalisation tradition to take into account influences deriving from competition or collusion in final product markets or the distribution of income.

Hood and Young (1979) observed that empirical verification of the internalisation theory has proven difficult if not impossible. Dunning (1993a) also contends that there are few original field studies that aim at testing the internalisation theory. Whatever disagreements these theorists may have, it is fair to conclude that the

choice of internalisation theoretical issues on which to concentrate is not arbitrary, but reflects what each camp believes to be the most important historical driving forces underlying the growth of the modern firm.

2:1:3:1:4 The Eclectic Paradigm

Dunning (1979, 1980, 1993a) in his eclectic paradigm framework, sought to offer a general framework for determining the extent and pattern of both foreign-owned production undertaken by a country's enterprises and that of domestic production owned by foreign companies. In doing so, he synthesises three stands of the theory of FDI by arguing that it was the monopolistic (which he terms ownership-specific) advantage, together with the internalisation and locational advantages that influences a firm's decision to engage in foreign production.

In the eclectic paradigm it is contended that FDI firms or MNCs have competitive or 'ownership' advantages vis-à-vis their major rivals, which they utilise in establishing production in sites that are attractive due to their 'location' advantages. According to Dunning, two types of competitive advantage can be distinguished: the first is attributable to the ownership of particular unique intangible assets (such as firm-specific technology) and the second is due to the joint ownership of complementary assets (such as the ability to create new technologies). MNCs retain control over their networks of assets (productive, commercial, financial, and so forth) because of the 'internalisation' advantages of doing so. Internalisation advantages arise both from the greater ease with which

an integrated firm is able to appropriate a full return on the ownership of distinctive assets, such as its own technology, as well as directly from the co-ordination of the use of complementary assets, subject to the costs of managing a more complex network.

Interestingly, several theorists are of the opinion that these two advantages (ownership-specific and internalisation) are really internalisation advantages since any ownership-specific advantage has to be internalised in order to be effective (Rugman 1985, Casson 1987, Itaki 1991). To some extent Dunning (1993a) recognises this and widens the definition of ownership-specific advantage to cover 'transaction cost advantages'; these are assets which originate from gains from a diverse set of multiple, value added, geographically dispersed cross-border activities, including the benefits of risk diversification.

Dunning (1993a) also predicts that the more ownership-specific advantages a firm possess over its foreign competitors, the greater is its incentive to internalise them rather than externalise their use. But in his analysis, Cantwell (2000) summarises that the eclectic paradigm is an overall organising framework rather than a theory. Thus it does not have a definite view of competition built into it. Neither does it depend *a priori* on a particular theory of the firm. It is capable of providing expression either to the internalisation approach, in which the firm grows by displacing markets that operate in a costly and imperfect way, or to the market power theory, in which it is the growth of the firm, which is the essential cause of the market imperfections and failure.

Dunning (1993a) also argues that the more it is in the firm's interest to use the advantages discussed earlier in this section in a foreign location, the greater the possibility of its becoming engaged in FDI. This is discussed further in the next section, which discusses the location of FDI. Dunning's assertion that the eclectic paradigm explains all forms of international production made by MNCs in different geographical regions will also be useful to determine the extent to which the paradigm explains the motivations for FDI undertaken in LDCs such as Ghana and the ECOWAS region.

2:1:3:1:5 The Role of IFC, ICSID And MIGA

To facilitate FDI flows into Less Developed Countries, multilateral agencies such as the International Finance Corporation (IFC), International Centre for Settlement of Investment Disputes (ICSID) and Multilateral Investment Guarantee Agency (MIGA) have been established. These institutions are in addition to the World Bank, the International Development Association, Inter-American Development Bank, African Development Bank, Asian Development Bank and other financial agencies that lend to developing countries for social infrastructure projects.

Three of the multilateral financial agencies IFC, ICSID and MIGA played major roles in the flow of FDI into the West Africa sub-region.

The IFC was established in 1955 to make loans and later, equity investments in private sector projects in Less Developed Countries that are members of the

World Bank. Baker (1999) describes such investments to LDCs as investments 'without government guarantee', a qualification that makes the IFC unique among the multilateral financial institutions. The IFC investments attracted into LDCs as at 1999 represent approximately 25% of the total project costs, making a total book value of the projects supported by IFC approximately US$ 80 billion (Baker, 1999). The IFC Annual Report (1996) states that during IFC's first forty years of operations, the agency has facilitated FDI attraction by making cumulative commitments of more than US$ 21.2 billion in loans and equity investments to more than 1,850 private companies in 129 countries.

But as Ayittey (1992) observed, African LDCs benefited less from these agencies than other LDCs in East Asia and Latin America. He noted that Black Africa's GDP fell by an average 1.2%, whereas East Asia during the same period grew by 6.2% and South Asia grew by 3%. Ayittey (1998), in a demographic analysis of Africa, attributes this lack of African LDCs' ability to utilise these agencies to attract maximum FDI to civil strife, macroeconomic instability, slow economic growth and small domestic markets; other reasons include inward orientation and burdensome regulations, slow progress on privatisation, poor infrastructure, high wage and production costs, as well as misguided leadership, political corruption, senseless civil wars, human rights violations and military vandalism. The factors listed above fail to attract potential foreign investors into these countries, many of whom put the security of their investments first.

ICSID and MIGA both have underlying major objectives that are similar in nature. The major services of both institutions are designed to improve the FDI climate in LDCs.

ICSID assists LDCs in the formulation of treaties and laws that encourage and ease FDI inflows into such countries. Baker (1999) observes that, at the end of ICSID's 1997 financial year, nearly 1,200 investments treaties had been consummated and 75% of these provide settlement of investment disputes by ICSID arbitration culminating from investments covered by these treaties. To facilitate and make the LDC attractive to FDI, several investment laws written in LDCs in recent years also make reference to the use of ICSID arbitration procedures. Broches, (1993) sees the principal objective of the ICSID annulment process as protection to the investor and host country against procedural injustice; this proves crucial to FDI attraction in LDCs.

A major objective of the MIGA's investment insurance program is to encourage and facilitate increased flows of FDI into LDCs. Baker (1999) observes that the concept of investment insurance can have much broader implications than the more narrow focus of the arbitration of a dispute in a contract between a foreign investor and a host state government. A MIGA investment guarantee can run as high as US$ 50 million or more, whereas an ICSID arbitral proceeding can be concerned with a dispute that amounts to a few million dollars at most.

After MIGA was established and had initiated its investment guarantee programme, FDI in LDCs increased significantly. In 1992, Baker (1999)

observes that in the past few years, the significant increase in demand for MIGA guarantees shows that the development of this concept has been a strong catalyst toward a favourable private investment climate in the LDCs.

But again as Baker (1999) rightly observed, more than 80% of the recorded FDI flows during the period were directed at the more dynamic economies of East Asia and Latin America. This is due to Sub-Saharan Africa's inability to fulfil significantly substantial development preconditions as listed earlier in this section of the chapter. Nevertheless, it can be argued that with the establishment of ICSID and MIGA's operations in most African countries including Ghana – MIGA trains system administrators and users at the Ghana Investment Promotion Centre (MIGA Annual Report, 1997) – the motivation and influence of attracting FDI into the region would increase considerably.

2:1:4: Factors That Influence The Location Of Foreign Direct Investment

In this section the study will make no attempt to undertake the exhaustive analysis of the voluminous literature on location theory. The study will instead carry out an examination of those theories which seek to explain why the FDI firm will choose to locate production in developing countries such as Ghana and the ECOWAS countries.

Two distinct approaches will be employed in the location literature. First the theories that seek to explain where a firm is likely to locate its production, and the factors that influence this decision. The second is the empirical analyses, carried

out by researchers, which attempt to evaluate the relative importance of those factors that have been identified as determining a firm's locational decision.

2:1:4:1 FDI Location Theories

Developing countries traditionally have been viewed as sites for locating low-cost, labour intensive activities or securing access to natural resources. The advanced developing countries of Brazil, Mexico, Malaysia, Korea, etc. and some developing countries in Africa, e.g. Ghana, Nigeria, Uganda, and Cote d'Ivoire fit this bill. Hence several location theories, which focus on developing countries, address these issues. Two major theories discussed below explore the reasons for FDI firms locating their factor-intensive activities in developing regions.

2:1:4:1:1 The International Product Cycle Theory

Vernon (1966) deviated from previous theorists to combine the microeconomic concept of the product life cycle with trade theory. He did this with the view that international production was a sequential process. In doing so he advanced a theory that purported to explain the market-seeking production of the US firms in the 1960s.

Vernon's (1966) theory posits that in the early stages of the life of a product, production is undertaken in the home country because of the need of producers to have easy access to inputs and to maintain the swift communication with suppliers and competitors. At this stage, the product is highly differentiated and

its demand is fairly elastic. Producers later begin to export the product to advanced countries, notably Western Europe, which have demand and supply characteristics similar to those of the US.

Gradually, the product becomes more standardised. Its demand becomes more elastic and the knowledge of its production more diffused. The expansion of the foreign market increases the attractiveness of establishing production rather than in the home country. This investment is precipitated by the threat of the imposition of trade barriers or the anticipation of foreign competitors setting up production in these markets. Thus Vernon argues that eventually the subsidiary would replace exports from the home country or even export back to it.

Of significance to the less developed countries, Vernon further postulates that at the advanced stages of standardisation, labour-costs will become a critical consideration in production. Thus the less developed countries such as Ghana, Nigeria, Uganda and Cote d'Ivoire for example, with low-cost labour will now offer a competitive advantage as a production location. Vernon (1966) hypothesises that production is initially located in the US, it is then subsequently located in an advanced country, for example Western Europe, and finally to the less developed countries such as Ghana, Nigeria, Uganda, Cote d'Ivoire, etc. In all these three stages of the product cycle, changes in demand, and in the supply of technology, together with cost considerations dictate the FDI firm's choice of locating foreign production.

In 1971 and later in 1974, Vernon sought to refine this theory by emphasising the oligopolistic behaviour of FDI firms. To this end, he related the three stages of the product cycle to those of the innovation-based oligopoly, the mature oligopoly and the senescent oligopoly. Further, he widened the scope of the theory to take into account other factor costs (land and material) (Vernon 1971, 1974).

In this version of the product cycle theory, Vernon maintains the assumption that market forces drive innovation. He posits that when economies in production or marketing become critical, they would replace the innovation factor as a barrier to entry (innovation-based oligopoly). At this stage, the industry will evolve to that of mature oligopoly. Thus, in this phase-two stage, the FDI firm, protected by barriers to entry generated by economies of scale in production, transportation or marketing, will seek to engage in defensive investment. Consequently, the firm's choice of locating foreign production is influenced by the actions of rival oligopolists. Vernon, adopting Knickerboker's 'follow-the-leader' hypothesis, postulates that FDI firms will march moves of rival into a foreign location to maintain industry stability (Vernon 1974).

In the final stage of the product cycle, the barriers to entry generated by scale economies will weaken: cost considerations will now become critical. Hence, the senescent oligopolist will seek to locate production in regions where factor costs are relatively low. Consequently, production will be relocated to low-cost LDCs such as Ghana, Nigeria, Uganda and Cote d'Ivoire.

In recent times, however, the relevance and applicability of the product cycle theory to international trade and production have diminished (Rapp 1973; Giddy 1978). Vernon himself recognised this (Vernon 1979) when he stated that the growing similarities in income levels among industrialised countries, together with a geographic spread of the FDI firm, have negated some of the assumptions of the theory. Nonetheless he posits that the product cycle theory is still applicable to the new FDI firms that have not yet acquired a network of foreign subsidiaries or operating abroad. Most importantly, however, he advances the view that, unequivocally, it is still a useful theory for explaining the location of FDI in developing countries.

2:1:4:1:2 The New International Division Of Labour

Another group of theorists, who agree with Vernon, argue that FDI firms undertake foreign production in developing countries because of factor cost considerations. Frobel *et al* (1980) state that the movement of certain industrial activities, significantly textiles and electronics, to developing countries is the result of what they term the 'new international division of labour'. He argues that enterprises in the industrial world, stimulated by cheap labour, changes in production to be undertaken with minimum skills, and improvements in transport and communications, are relocating certain types of manufacturing operations into developing countries.

This type of production in developing countries are only partial, hence the production units in the home and host countries are vertically integrated. This

sometimes results in the trade of intermediate goods between these units. This growth of intra-firm trade has been discussed at length by several scholars (Sharpson 1975; Buckley and Pearse 1979, Kotabe 1989).

The cost of transportation also influences the location of FDI, particularly the type of product relocated. Consequently, products that have a high volume-to-weight ratio are selected. Moreover, the 'distance' and administrative costs play a considerable role in the choice of locating offshore activity (Shrapston 1975). A country's location / proximity to a developed country market is a considerable advantage as evidenced by the success of the Mexican maquiladoras.

Frobel (1980) also interestingly attributes the acceleration in the spread of industrial production in the developing countries to the establishment of free production zones in these regions. Free production zones or export processing zones are either geographically defined economic extra-territorial areas or functional states in which enterprises produce exclusively for exports. The producers (FDI) in the zones are generally offered special fiscal incentives, subsidised infrastructure provisions, duty-free imports of inputs and unlimited repatriation of profits. As Roberts (1992) observes, labour is also promised to be cheap, easily trained and docile. It is noteworthy that the Freezones comprise part of Ghana's FDI attraction policy mainly on the policy advice from international financial institutions such as the International Monetary Fund and the World Bank.

2:1:4:1:3 The 'Double Diamond' Model of Competitive Advantage

This study explains that the 'Double Diamond' model is not a location theory, per se. That is, it does not explicitly purport to explain the factors that influence the FDI firm location decision. Nonetheless, it is believed that this model has the capacity to adequately explain the locational decisions of FDI firms in LDCs such as Ghana and the ECOWAS region.

The 'Double Diamond' model has been developed in recognition of the limitations inherent in the single diamond of competitive advantage as proposed by Porter (1990). Essentially, Porter (1990) postulates that a global firm develops its sources of competitive advantage in its home country. By competitive advantage, Porter means the ability of indigenous firms to achieve international competitiveness. These are detailed as the characteristics of a favourable 'proximate' environment in his model of the determinants of national competitive advantage (Porter, 1990).

In this model, Porter (1990) identifies four features of a national environment that enable firms to develop a sustainable advantage. These four interacting determinants form what Porter terms a 'diamond' (see Figure 2:1)

The four determinants are:

(i) Factor Conditions: the country's factors of production including basic factors such as natural resources, unskilled and semi-skilled labour and created advanced factors such as modern communication infrastructure and specialised research institutes

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The four determinants are:

(i) Factor Conditions: the country's factors of production including basic factors such as natural resources, unskilled and semi-skilled labour and created, advanced factors such as modern communication infrastructure and specialised research institutes

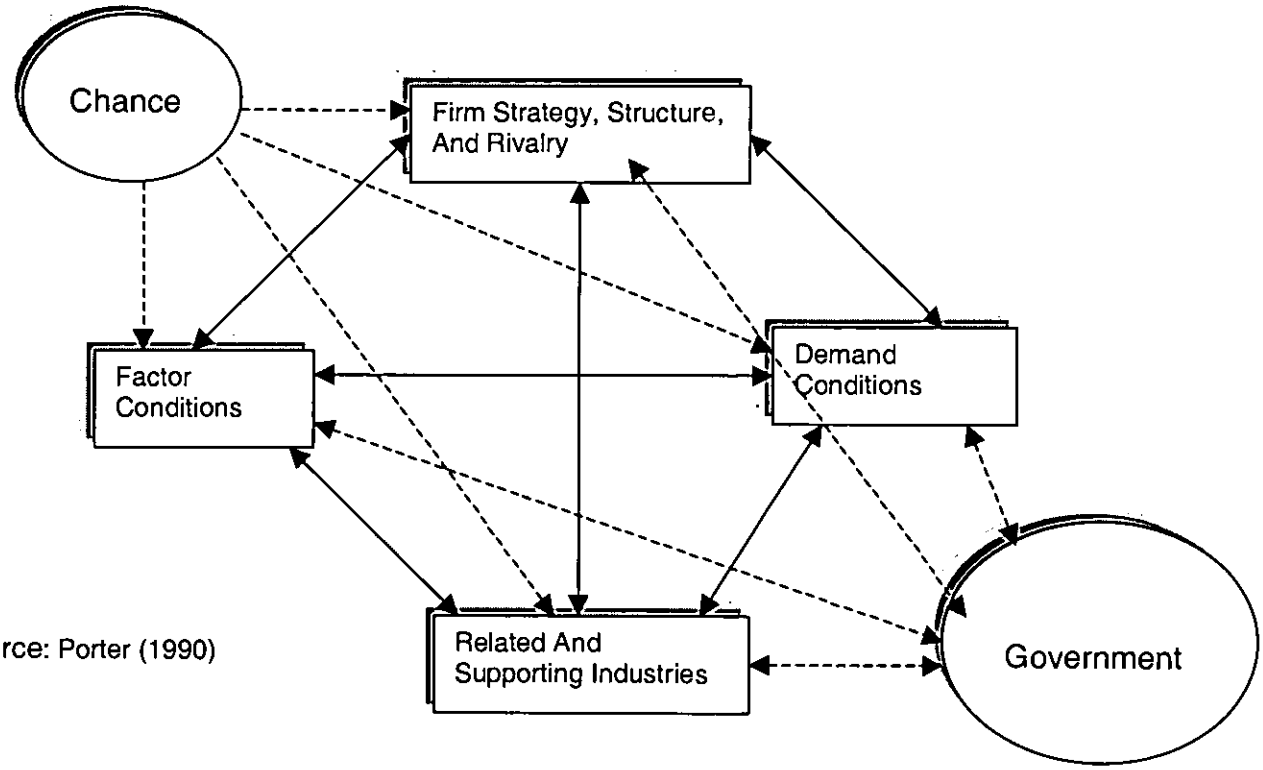
(ii) Demand Conditions: the nature and demand for goods and services by domestic buyers as well as the degree of sophistication of these buyers

(iii) Related and Supporting Industries: the extent to which the domestic firms gain from the agglomeration economy effects of the presence of internationally competitive, domestic supplier and related industries

(iv) Firm Strategy, Structure and Rivalry: the context in which firms are created, organised and managed as well as the nature of inter-firm competition.

In addition, Porter identifies two external variables that affect competitiveness outside the four direct determinants. These are Chance and Government.

Figure 2:1 The Single Diamond of Competitive Advantage



Source: Porter (1990)

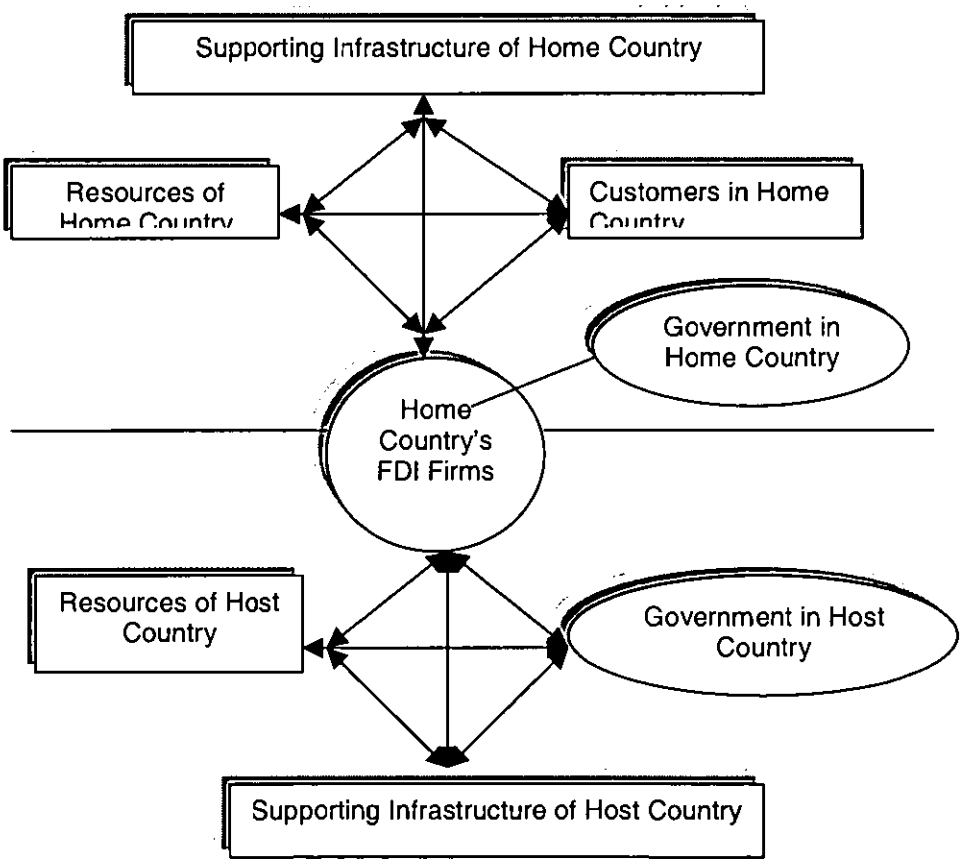
As illustrated in Figure 2.1, chance events occur outside the firm's control, for example wars or major technological discoveries. They can result in changing competitive advantage in many countries. Similarly, government through its policies can improve or detract from national advantage. Porter identifies policies such as anti-trust and investment in education, as influencing the development of national advantage. These can influence the decision of FDI firms investing abroad.

The academic merit of Porter's model is without question. However, the model appears to have a limited applicability for countries that are outside the developed world. The model was constructed on an empirical analysis drawn from seven advanced industrialised economies and one advanced developing country. However, more than 90% of the world's nations do not possess economic structures, economic strength or affluence of these eight countries. Hence, the relevance and applicability of Porter's single diamond model to most countries is highly questionable.

Not surprisingly, Porter's diamond of competitive advantage has provoked severe criticisms. Dunning (1993b) notes that Porter failed to adequately address the manner in which the multinational activity of the global firm influences its international competitiveness. He stated: *"there is ample evidence that the technical and organisational assets of FDI firms are influenced by the configuration of the diamonds of foreign countries in which they produce, which, in turn may impinge upon the competitiveness of their home countries."*

Dunning (1993b) in an attempt to correct Porter's omission of multi-nationality, suggests the FDI firms' activities should be treated as a separate variable, assuming the same role in the model as those of chance and government. Rugman and D'Cruz (1993) adopted an approach, which made the treatment of the effect of multinational activity on the location and development of the firm's competitive advantage to be more compelling. This is the 'Double Diamond' model.

Figure 2.2 The 'Double Diamond' Of Competitive Advantage



Source: Rugman and Verbeke (1993a)

Rugman and D'Cruz, (1993) defending their 'Double Diamond' model argue that Porter's 'Single Diamond' model is flawed when applied to economies that are small, open and involved in trade. e.g. developing countries. They argued that the economies of the less developed countries are highly integrated with the advanced industrialised nations, which the 'double diamond' theory explains better than the 'single diamond' theory. In Figure 2.2, the 'diamond' of the home country (resources, customers, government) is linked with the 'diamond' of the host country (resources, government, supporting infrastructure). To survive in rivalry with firms of the leading nations, the businesses of these smaller economies are forced to be globally competitive. Hence the requirement to link the 'diamond' of their home country with that of their leading trading partner (See Figure 2.2) They cited the example of Canada. Since more than 70% of the sales of Canada's industrialised FDI firms takes place in the USA, it is the US 'diamond' that is likely to be of more relevance to these firms than their own home 'diamond' (Rugman and D'Cruz, 1993).

Rugman and Verbeke (1993a) also argued that Porter's main focus of home base being the FDI firm's source of core competitiveness is flawed. Rugman and Verkebe argue that large FDI firms are becoming increasingly independent of their home bases. Thus, in effect, are utilising other nations' 'diamonds' to develop international competitiveness (Rugman and Verbeke ,1993a).

Hence, the 'Double Diamond' model suggests that firms operating in the small open economies of less developed countries such as Ghana and the other

ECOWAS countries will link the diamond of these countries with that of their major trading partners. Conversely, this study argues that the FDI firms that undertake investments in Ghana and the ECOWAS region will attempt to link the 'diamond' of its home country with that of Ghana or the relevant ECOWAS country. Further the study posits that any analysis of the 'Double Diamond' model for Ghana and any other ECOWAS country will reveal the locational endowments, i.e. the determinants of the Ghanaian and ECOWAS 'diamond', which the FDI firm uses together with its home country to achieve international competitiveness.

2:1:4:1:4 The Empirical Analyses Of The Determination of FDI Firms' Locational Choices

Empirical research conducted on the determination of FDI firm's locational decision has generally tended to adopt two approaches: a quantitative and a qualitative approach. Some of the major studies undertaken in this area are discussed in this section. However, it is noteworthy to say that attempts will be made to limit the analysis to the literature that seeks to explore the factors that determine the FDI firm's decision to locate its foreign production in developing countries.

2:1:4:1:4:1 *Qualitative Studies*

Two studies discussed in this section examine the proximate environment in which the firm operates. The other analyses one of the policy instruments that

governments in developing countries implement to attract foreign investment. This is the investment incentive system.

Reuber (1973), on the basis of interviews conducted with executives in North America, Europe and Japan sought to analyse the factors influencing firms' decisions to locate their production in developing countries. The study examined two types of FDI: domestic market development and export seeking. Reuber (1973) notes that there was no overriding factor that influenced a firm's locational decision. He, however, posits that the factors, which appeared to affect market development FDI were the size of the host country's market and the polices that are enacted to protect this market from competing imports. By contrast, Reuber (1973) observes that export-oriented investments were lured by the availability of low-cost factor inputs, signiticantly skilled and unskilled labour, and basic infrastructure. Financial incentives such as tax holidays, duty remissions and accelerated depreciation on machinery and equipment were also of critical importance, he observed.

It is noteworthy that Reuber (1973) concludes that the incentive system does have some influence over the locational decisions of the firms. The most significant ones are tariffs, quotas on competing imports, concessions on imports of inputs and tax concession.

Reuber (1973), however, reveals that the incentive system itself was inefficient since under alternate arrangements the same level of investment could have been attracted at much lower costs. One of the reasons Reuber (1973) adduces

for the inefficiency is the highly complex nature of the system that results in high transaction and administration costs. Reuber (1973) also states that the system itself was contradictory in nature since it was possible to simultaneously find policies to enhance FDI along with those to discourage it. He further argues that because of fierce competition among the less developed countries to provide such incentives, many of the incentives granted cancel out each other. Hence the incentive system simply functions to raise rents accruing to the existing investors. The incentive system is inefficient in luring new investment .

Another landmark study was that of Guisinger *et al*'s survey of 74 FDI projects (Guisinger *et al* 1985). These projects were based in four industries that were located in ten countries in which both developed and less developed countries were surveyed. Unlike Reuber, Guisinger focused solely on the investment incentives offered by governments to attract FDI. Nonetheless, he emphasises that a variety of factors influences the locational decision of a firm. Indeed, Guisinger postulates that the net incentive, the variety of incentives, the stability of policies, the timing of incentives, investment promotion and government services in infrastrcutural projects all impact on a firm's locational decision (Guisinger 1986b). He states that the net incentive, which he describes as the net rate of return of all investment incentives granted, is the most important influencing factor. Like Reuber, Guisinger concludes that investment incentives are effective mechanisms for attracting Foreign Direct Investment.

Wells (1986) commenting on Guisinger's study sees the main contribution of the study to the FDI firm location theory literature as its clarification of the investment incentives, which attract the various types of FDI. Indeed, Guisinger attempted to distinguish between the types of incentives offered. Two types were identified: factor-based and commodity based incentives. Factor-based incentives are those, which affect the cost of production; they include tax holidays, interest subsidies, cash grants and accelerated depreciation allowances.

Conversely, commodity-based incentives affect revenues and the intermediate input costs of the factors of production. These are incentives aimed at protecting the investor from import competition; they include tariffs and quotas. In addition he distinguishes between the markets in which FDI is oriented. He identifies three such markets: the domestic market of the host country, the regional market (e.g. the European Union) and the world export market.

Guisinger concludes that factor incentives had virtually no impact on the locational decision of firms that were engaged in market-oriented investment. By contrast, commodity-based incentives influenced this type of investment. Factor-based incentives were influential in the locational decisions of FDI firms that were primarily engaged in export-oriented activities.

A more recent study on the locational choices of 140 US multinationals operating in developing countries was conducted by Wallace (1990). The study sought to ascertain the critical impediments that FDI firms face when investing in the developing world. The study findings reveal that the tax policy of the host

country plays a critical role in the locational decision. Unlike Reuber (1973), Wallace (1990) posits country risk figures prominently in the FDI's locational choices. She states that political instability, threats of expropriation and stringent policies towards profit repatriation are serious deterrents to FDI. However, Wallace's findings on factor cost considerations were similar to those of some of the theorists discussed; e.g. Frobel and Vernon. Approximately 45% of the firms surveyed by Wallace (1990), identified the availability and cost of raw materials, and significantly, trained labour, as critical factors in their locational choices.

In conclusion, the qualitative analyses on the locational decisions of FDI firms in developing countries have supported many of the hypotheses proposed by location theorists earlier. As Reuber (1973) and Wallace (1990) conclude, FDI inflows are attracted to countries that offer low-cost factor inputs. This supports the theories advanced by Vernon and Frobel. Reuber and Guisinger's finding on investment incentives was critical. Indeed, it appears that market-oriented FDI is induced by commodity-based incentives.

2:1:4:1:4:2 Quantitative Studies

This section of the chapter discusses the empirical studies that explore the influence that selected locational endowments have on the FDI firm's location decision. The section analyses three elements: investment incentives, trade restrictions and preferential trading agreements. Other studies have attempted to ascertain the locational factors that induce specific types of FDI. Indeed,

several theorists argue that the various types of FDI respond differently to the locational advantages of a host country (Woodward and Rolfe 1993, Coyne 1995). At present, many developing countries, including Ghana, ECOWAS and the Caribbean regions, are attempting to attract export-oriented FDI (World Bank 1987a).

The analysis in the following section will attempt to examine some of the seminal studies conducted on the factors influencing the locational decisions of export seeking FDI firms that operate in developing countries.

2:1:4:1:4:3 Investment Incentives

Many of the quantitative studies have attempted to test the influence that investment incentives have on the firm's decision to engage in FDI in developing countries. As discussed earlier in the study, Lim (1983) and Balasubramanyam (1984) found no support for the hypothesis that fiscal incentives (tax holidays and cost lowering incentives) are necessary to attract FDI. Lim (1983) argues that influence of non-tax factors (a proven record of economic performance and the presence of natural resources) play a more decisive role in the locational decision.

Lim (1983) discovered an inverse relationship between the generosity of fiscal incentives and FDI inflows. A possible explanation for this relationship was advanced by Shah and Toyne (1978). They argued that countries lacking in natural resources endowment, technology and labour skills, compete fiercely for footloose-manufacture investment. In their excessively generous provision of

fiscal incentives, these economies compete away potential revenues from corporate taxes, they argued.

Wheeler and Mody (1991) describe the manner in which governments compete for FDI tax and other incentives as 'locational tournaments'. In their studies of United States of America firms, they suggested that the FDI firm is influenced by the agglomeration benefits such as the infrastructure quality, the degree of industrialisation and the level of investment in their choice of locating international production. Most importantly, it is argued that for developing countries, the critical variable that influences a firm's locational decision is not tax incentives, but the presence of good quality infrastructure.

Loree and Guisinger (1995) also lend their support to the argument that the provision of generous investment incentives does not necessarily result in increased flows of inward FDI. They argued that it might be more beneficial for a developing country to invest in upgrading its infrastructure than to grant redundant incentives.

2:1:4:1:4:4 Trade Restrictions

Government intervention in the economy could have a decisive influence on FDI inflows. One policy instrument that governments of both developed and developing countries can implement is trade restrictions.

Several researches have been conducted on the influence that trade restrictions have on FDI firms' locational decision. Kindleberger (1969) postulated that

government's imposition of trade restrictions could inadvertently stimulate a firm to engage in FDI in the hosf country. Other quantitative studies support Kindleberger's hypothesis. Franko (1976) describes trade barriers as the 'main triggers' of Continental European foreign manufacturing in developing countries in the post World War II period. Similarly, Vernon (1971) revealed that trade barriers stimulated FDI firms in the United States of America to set up manufacturing facilities to produce luxury goods for the affluent minority in developing countries during the same period.

One of the earlier studies, which attempted to test the influence that trade restrictions have on the locational decisions of FDI firms, was done by Horst (1972). Horst argues that foreign direct investment is the successor to foreign trade. His empirical analysis of United States of America firms operating in Canada concluded that tariffs imposed in the host country positively influenced the propensity of US firms to establish manufacturing plants in Canada rather than export the product to the country. However, Orr (1975) using a more disaggregated data, found no support for Horst's hypothesis. Similar conclusions were obtained in a later study conducted by Buckley and Dunning (1976). In their study, they found that tariffs had no influence on US firms' decision to engage in FDI in the United Kingdom.

Conversely, Lall and Siddhartan (1982) posit that trade barriers were important in stimulating non United States of America FDI firms to set up manufacturing operations in the USA. Hollander (1984) supports this hypothesis. He states

that the propensity of USA firms to replace FDI was higher when the host country imposes trade restrictions against the competing imports.

Conflicting results also have been found for the influence that trade restrictions have on the locational decisions of FDI firms operating in developing countries. As discussed earlier in the chapter, Reuber (1973) and Guisinger *et al* (1985) found that trade restrictions against competing imports were powerful investment incentives for the market-seeking FDI firm. Lecrew (1991) also discovered that changes in the tariff rate had a positive influence on market-seeking FDI. Rolfe et al (1993) support this argument. Their study revealed that the market-seeking investor moderately ranked tariff protection as his most desirable investment incentive.

But it was Agodo's (1978) findings on the determinants of USA manufacturing investments in Africa that relate more to the developing countries of Africa. Agodo (1978) stated that despite the high tariff rates in Africa, a minority of the firms indicated that trade protection played a significant role in their locational decision. Thus it is argued that tariffs are no longer such a powerful locational inducement for FDI firms (Dunning 1993a).

2:1:4:1:4:5 Preferential Trading Agreements

The granting of preferential trade agreements was initially proposed more than three decades ago (Yannopoulos, 1986). The objective of these agreements was to aid the economic development process of the less developed countries.

Today, several of these agreements flourish including the General System of Preferences, the Lome Convention and the Caribbean Basis Initiative.
It is interesting to note the argument that the preference scheme is likely to promote FDI in the beneficiary country.

Johnson (1968) posits that preferential trading schemes result in the establishment of a type of 'tariff factory' in the recipient country. FDI firms locate production in the beneficiary country to exploit the advantage of preferential access to industrial markets. In doing so, they gain competitive edge over the sales of rivals in the domestic market of the preference-giving country. Kreinin (1975) refers to this process as foreign investment diversion. Kreinin (1975) conducted one of the early analyses that explored the relationship between preferential trading agreements and foreign investment. He noted the impressive performance of Greece following its association with the European Union in 1962. He attributes Greece's growth in exports to foreign investment resulting from the country's associate status.

2:1:5 Effects

2:1:5:1 Criticism Of Foreign Direct Investments (Firms)

The literature relating to the effects of foreign investment on developing countries, particularly FDI, is as interesting as it is controversial. In the globalised world of investment and trade most countries, both developed and less developed, appreciate the importance and presence of foreign direct

investment projects in their countries. But pitted against the positive assessments/effects of the contributions of FDI to host countries have been FDI's alleged contributions to balance of payments difficulties, a drain on investment capital, introduction of inappropriate products and techniques, the loss of sovereignty, etc. Significant contributors to this literature include Baran and Sweezy (1966), Streeten (1972) Evans (1972), Sunkel (1972) Streeten and Lall (1973), Barnet and Muller (1974) and Hymer (1979).

The balance of payments difficulties are alleged to arise from remittances of FDI firms to pay dividends to shareholders and royalties or rents to parent companies for the use of technology. As Hood and Young (1979), Bornschier (1980) and Streeten and Lall (1973) observed, when such external flow of remittances exceeds incoming investment funds, the foreign payments engender balance of payments difficulties for host countries. Some analysts consider such remittances as drains on the host country's potential growth-promoting capital; a 'decapitalisation' effect as it has been called.

A related concern over the balance of payments effects of production by FDI is the alleged worsening of the host LDCs' commodity terms of trade. It is claimed that increased production of exportable commodities by foreign firms (sometimes) reduces their exchange values relative to the value of imports. This argument is buttressed by the fact that the worldwide elasticity of demand for most major exports from LDCs is usually less than unity. It is, therefore, suggested that worsening terms of trade from increased exports reduce the

income (well being) of affected LDCs (Lind, 1995), (Smith, 1984) Biersteker (1978), Moran (1985), Cassen and Pearces (1987), Korten (1995), OECD (1970a). Critics of the FDI firms also argue that these firms retard the economic growth and development of LDCs by their choice of production techniques alleged to be too capital-intensive for the relatively labour abundant LDCs. They claim such techniques distort the distribution of value added in favour of foreign factors (equipment, machinery and skills) and against local factors in LDCs. The FDI firms are also accused of introducing products, which cater for mainly the tastes of the rich minority while ignoring the needs of the poor majority. Thus, according to these arguments, FDI firms fail to increase the general welfare of the population.

In contrast to the positive assessment of FDI firms on the basis of taxes and royalties they pay to host governments, some analysts also complain that foreign firms (illegally) extract huge sums of money from LDCs through transfer pricing. By this the analysts allege that the foreign firms inflate the value of imports (materials, equipment, and machinery as well as technology) and under-value their exports, and are thus able to more than offset the amounts they pay in taxes (Vaistos (1976), Natke (1985), Greider (1997), (Fry 1993 and 1994). In Ghana, such practice is usually referred to as over-invoicing and under-invoicing. According to the argument, such transfer pricing by foreign investing firms is just another mechanism through which foreign firms impoverish LDCs to the advantage of the more developed countries.

Finally, some critics allege that, because of their relative sizes, foreign investing firms are able to hold governments to political ransom by threatening to close plants and cause significant unemployment. They are also accused of corrupting government officials to act according to their firms' profit interests, or inviting retribution from the powerful home governments. The arguments of both the critics of FDI firms and those who attribute to them the mainly positive contributions to economic growth and development of LDCs may be argued to be both partially correct. The following section reconciles the competing assessments.

2:1:5:2 Reconciling The Competing Assessments

The problem with the arguments for and against FDI firms in LDCs very much bears on their approaches; either appears to be an overstatement. But it can be argued that on assessing the contributions that foreign investing firms (FDI) make in terms of their creation of wealth for domestic factors in most LDCs, these firms can be spared most of the accusations discussed in the last section. This view is supported by Ahiakpor (1990) when he argues that investments of foreign firms in LDCs increase the demands for the stock of a nation's capital, land, and labour, hence increasing the national income of host countries from the earnings of interest, dividends, wage and rental incomes. This method of assessment may also help towards greater appreciation of the need for foreign firms to pay factors owned by foreigners, including capital (dividends), technology (rents or royalties) and management (professional salaries). This may also help

to make the point that, whatever amounts of annual profits a foreign firm remits, they cannot exhaust the wealth or gross value-added produced by the firm over a given period. In such a situation, such remittances as used by the critics against FDI firms can hardly be a drain on the host country's source of investment capital. Similarly, transfer pricing as a means of repatriating profits (if they exist) may be recognised as remittances not of domestic factor incomes but of the foreign firm. The host country's own investment capital can only come from savings out of incomes earned by local factors of production. Thus the fallacies of drain on the host country's sources of investment capital and balance of payment difficulties may be recognised within the framework. However, it can be argued that whatever view prevails may depend on (a) who controls the media, and (b) the perceived trustworthiness of the foreign firm or /and host government.

With regard to the criticism of foreign investing firms being able to hold governments to political ransom by threatening to close plants and cause significant unemployment, the argument is no different. Indeed, governments complain about their loss of sovereignty from the presence of some FDI when for example, they estimate that the anger of the nationals who would be thrown out of work if the foreign investing firm left, would be directed at them for causing them to leave. Without such an assessment, the possibility of plant and factory closures would be of little concern to host governments in their dealings with foreign investing firms. Furthermore, it should be possible for the government to publicise the misdeeds of a foreign investing firm and for the citizens of that

country to voluntarily boycott their products or withhold sale of economic resources to them as an indication of their displeasure or national pride, should they feel sufficiently aggrieved. Also it would be difficult for a foreign (home) government to intervene in such a situation. Again, the fallacy of FDI firms holding the host government to ransom may be recognised in light of this argument.

2:1:5:3 The Effect Of FDI On Economic Development

The study in this section would now discuss the impact that foreign investments (FDI) exert on the economic development of LDCs such as Ghana within ECOWAS. But before embarking on the literature, arguments and analysis of the impact of FDI on economic development - particularly in LDCs – the study deems it useful to distinguish between the concepts of economic growth and economic development as both have been used interchangeably within the thesis.

Economic growth is usually defined as the increase in the stock of economic assets, including consumption goods and services, producers' goods and skills or non-human capital over a given period of time. Growth is thus measured as change in per capita gross domestic (GDP) or national (GNP) product, usually over one year. Economic development, on the other hand, is defined to include other characteristics besides per capita income growth. Thus economic development is said to have occurred when per capita income has been rising in addition to improvements in the distribution of income, a greater proportion of the population having gained more access to schools, hospitals, means of

communication and transportation over time, and the techniques of production and the quality of life in general have improved (Ahiakpor, 1990).

Some analysts would also include greater participation in the political decision-making by the majority of the population (particularly in LDCs) among the indicators of development. This is an attempt to include the definition of socio-political and "quality of life" aspects of human existence beside those considered economic. By this criterion, societies ruled by dictatorships, civilian or military (as in some ECOWAS countries (e.g. Liberia, Sierra Leone, Togo, Burkina Faso, and Côte d'Ivoire) are judged as less developed than those governed by democracies. It can, however, be argued that whatever the merits of this criterion in measuring or judging the level of development, it is one which is quite marginal in assessing the role of FDI in the process of development.

From the development experiences of LDCs such as Cuba, Ghana, Jamaica, Sri Lanka and Tanzania, Ahiakpor (1990) observed that, if the country's development focus is based on equity per se, then a country experiencing a healthy economic growth of 5 per cent annual per capita income growth or more, may yet be regarded as not experiencing development if most of the economic assets are owned by a small proportion of the population and the quality of life does not improve. Clower *et al* (1966), for example, judged the record of Liberia on this basis. Thus the question is asked again, how do the FDI firms add to the economic development of LDCs?

Although foreign firms are established by entrepreneurs primarily for profits from the enterprises in which they may be engaged, they pay wages, taxes, interest, rent and prices of other inputs either laid down by host governments or those that their owners freely choose to accept. Similarly, although most foreign firms are not primarily concerned with the provision of other means for improving the quality of life for the majority of a population – including education, transport, health and communication facilities – for a community, these firms may invest in the creation of such facilities if by such expenditures their profits are increased, thus fulfilling implicitly the mandate of those with whose capital they are in business.

Thus the contributions of FDI firms towards economic growth and development are assessed in respect of their creation of demand for the services of the host country's land, labour and capital to be employed in the valued added, as well as the contribution to government revenue through the amount of taxes paid. Meier (1984) considers the taxes paid by FDI firms as an important contribution to the development potential of host countries. Meier (1984) observed: *".....For many countries, taxes on foreign profits or royalties from concession agreements constitute a large proportion of total government revenue.....The fiscal benefit derived from foreign investment is evident from the fact that the share of government revenue in the national product of countries that have received substantial foreign investment is considerably higher than in most of the other low income countries."*

FDI also contributes directly to economic growth and development by investing in firms creating or transforming LDCs' raw materials into more useful forms of services as demanded by consumers (Kirzner, 1973). This can be done through the degree or scale to which these firms contribute to growth through their production activities. Kirzner (1973) posits that a large scale of production by the foreign investment firms (in comparison with the small local ones) may translate into a larger contribution per establishment to dividends, interest, rental, and wage income streams for the economy of the host country.

Another index for assessing the relative contributions of FDI to economic development may be the responsiveness of foreign firms to economic shocks or elasticities. Ahiakpor (1990) opined that slower response to changing economic conditions (whether in interests, rental cost of land or equipment or in wages) may cause a firm to operate at higher average costs than if the firm were able to adjust to input combinations faster. Such slower response may also mean a limited ability to expand production in response to a fall in input costs and hence a smaller contribution to economic growth. A slower responsiveness may also mean a lesser contribution to development (in terms of relative income distribution) by its inhibition of greater use of factors whose relative costs have decreased.

The relative contribution of FDI firms to economic development may also be assessed from the differences in the quality of goods and services they produce,

compared with those of their local counterparts. If the contribution to the quality of life definition of development is accepted, then as argued by Ahiakpor (1990) this criterion for assessing the impact of FDI on development is justified once its use is tied to the acceptance of consumers' preferences as indicators of their well being. Such a framework prevents the analysis from being distracted by paternalistic arguments related to the definition of 'appropriate' products, as discussed by Stewart (1977), Lall and Streeten (1977) and James (1982).

In his assessment of FDI firms' contribution to economic development, MacDougall (1960) places more emphasis on the contributions of foreign firms to the stock of capital, technology (embodied in equipment, products, marketing and management skills) access to foreign markets (hence increased earnings of foreign exchange) and increases in government tax revenue. For most LDCs such as Ghana and the other ECOWAS countries, this approach is important. Due to low incomes and poorly developed capital markets, financial capital formation is also worsened where governments adopt a low regulated interest rate policy in the mistaken belief that it promotes faster economic growth through increased investment. Foreign investments with funds acquired abroad thus partially relieve the shortage of financial capital and make greater production possible. Such additions to foreign capital may also relieve pressure on the rate of interest charged in the informal money and capital markets.

LDCs such as Ghana and the other ECOWAS countries are also technologically poor. This poverty partly accounts for their lower levels in production or

efficiency in the transformation of materials into more useful (greater utility-generating) stages (Kirzner, 1973). And there is much less investment in new technology creation by both firms and governments of the LDCs, as compared with such investments of the more developed countries. But, as stressed by Rostow (1971), the development of new technology – i.e. products and production methods, large-scale manufacturing, marketing techniques as well as management – is one of the strengths of FDI. It is very much the possession of specific technological advantage (Rostow, 1971) by FDI firms over their competitors at home that enables the foreign firms to overcome early diminishing returns to scale and expand their operations. It is also such technological advantage that enables the foreign firms to engage in production abroad and make profits in the unfamiliar environments of different laws, customs, languages, work habits and sometimes climate. The introduction of new technology to these LDCs by FDI thus contributes significantly to the growth and development potentials of the host countries.

Increased foreign exchange earning capacity (MacDougall, 1960) is also made possible by FDI through the production activities of foreign investing firms. This assertion is based on the argument that foreign firms have better world demand conditions, particularly in their home (source) countries for products manufactured in the host countries. Therefore, they are expected to be better at marketing them abroad. Furthermore, it can be argued that foreign firms tend to be granted preferential treatment [(Yannopoulous, (1986), Johnson (1968),

Kreinin (1975)] with respect to import duties levied by their home governments. Where such treatment exists, foreign firms are able to export more than their local competitors in LDCs. For the LDC economy, total exports increase, and the receipts from such sales tend to be considered additions to the stock of foreign exchange earned by the host country (MacDougall, 1960). Consequently, for many LDC governments who regard foreign exchange scarcity as one of the significant constraints of their ability to develop, the greater capacity to export – made possible by the activities of FDI – is, therefore, regarded as an important contribution to economic growth and development.

However, Bruton (1969) and Bloomquist (1976) pointed out that the foreign exchange shortage theory is largely a misleading argument. They argued that in a fully flexible exchange regime, there is no meaningful way of describing the foreign exchange shortage. But what Bruton (1969) and Bloomquist (1976) might have not realised is that, in most of Africa's LDCs - for example, Ghana, Togo, Burkina Faso, Mali, Guinea - there exists a real shortage of foreign exchange. Consequently, one could argue that it is fair to give credence to the foreign exchange theory as described earlier on in this section and supported by MacDougall (1960).

In summary, whatever conclusions one derives from the above arguments – for and against – the methods of assessing the contributions of foreign investing firms (FDI) to economic growth and development in LDCs, the conclusions may

only be relative. Such conclusions do not negate the fact that foreign investing firms may have contributed positively to the economic growth and development by hiring local factors and transforming local materials of the LDCs into higher stages of utility generation as suggested by Kirzner (1973). Without the activities of the foreign investing firms, total wealth creation and rewards to local factors (hence national income) would have been smaller. It is hard to conceive FDI as merely substituting for local investment, both private and public. FDI can be seen to bring along with them potential for increasing the economic growth and development for the LDCs and developed countries that they invest in. Even where foreign firms buy local firms, their purchase prices (capital values) constitute potential investment funds, which could be employed elsewhere within the economy for the host country. It is, therefore, reasonable to argue that LDCs such as Ghana and the other ECOWAS countries establish significant levels of development preconditions that can influence FDI attraction, in their countries.

2:2:0 Trade Theories

The trade theories discussed in this section of the study are focussed on their relevance, significance and link to the thesis focus; i.e. the potential that these theories have and the impact they exert on investment attraction and economic development, particularly in LDCs; e.g. trade liberalisation, the gains from trade, the general equilibrium model of trade and trade fairs. The link between technology based trade theories, investment attraction and economic development is also discussed in this section of the study. The discussion also

includes industrial development theories on Export Development, Import Substitution (IS), Export Promotion (EP) / Orientation (EO), Exchange Rates (ER) and Devaluation – most of which involve important macro economic policies of LDCs such as Ghana and the ECOWAS countries – and which to a large and significant extent influence foreign investors to invest in LDCs.

2:2:1 Introduction

Trade can be described as the inter flow of commodities, goods and services and financial resources. Hibbert (1990) describes it as based on the concepts of "absolute" and "relative" comparative advantage as developed by Ricardo (1817). This is at the basic level in which each country is supposed to possess resources that have a higher value externally than in domestic economy. That is, for example, surplus production, high demands for finite economy, superior technology, higher labour productivity and other factors which one country can 'trade off' with other countries endowed with other complementary resource factors. Economists have long applied these principles of specialisation and comparative advantage to the exchange of goods between individual nations (Pomfret 1995).

But as Todaro (2000) argues, trade must be understood in a much broader perspective than simply the inter flow of commodities and financial resources. By opening up their economies and societies to global trade and commerce, countries (particularly developing countries) invite international transfer of goods,

services and financial resources into their countries. By looking outward to the rest of the world they also invite development and anti-development influences from the other parts of the trading world. By the latter part of the twentieth century, new researchers had come out with what they call "new" theories of international trade, which questioned the heart and soul of classical trade theory. Respectable economists and marketing experts like Todaro, (2000), Porter (1990), Harzard and Yoffie (1989) and Pomfret (1995) began to ask whether unconditional free trade was a country's best policy choice, for example.

2:2:1:1 The "General Equilibrium Model" Of Trade.

Stolper and Samuelson (1941) and Ohlin (1933) developed various interpretations of the General Equilibrium Model of international trade. Hazard and Yoffie (1989), Todaro (2000) and Pomfret (1995) have carried out full reviews of some of these interpretations of the model in recent times.

The "general equilibrium model" of international trade suggests that there exist gains of international trade as long as there are differences in opportunity costs of producing any good at the autarchic output levels of trading countries.

The Heckscher-Ohlin theorem under this model states that, "*...countries will have comparative advantage in producing the goods using their particular factor relatively intensively, and each country will export its abundant-factor goods in*

return for imports of the goods which uses its scarce factors relatively intensively."

After Heckscher's (1950) paper on the equalising influence of trade and factor prices and Ohlin's (1933) restatement of the classical theory on international trade in terms of the general equilibrium theory, trade appeared more clearly as a substitute, or an alternative, to factor movements in permitting an adjustment of industrial activity to adapt itself to the localisation of natural and population resources with the result that the relative scarcity of labour and capital became less different.

But as Meier (1976, 1984) observed, contrary to what the equilibrium theory of international trade would seem to suggest, the inter-play of the market forces does not work towards equality in the remuneration to factors of production and, consequently, in incomes. The link to the thesis focus of economic development is that, if left to take its own course, economic development is a process of circular and cumulative causation which tends to award its favours to those who are already well endowed and even to thwart the efforts of those who happen to live in the regions that are lagging behind. Thus as Todaro (2000) further explains, the Heckscher-Ohlin theory - which he called the *factor endowment theory* - is that which enables us to describe analytically the impact of economic growth on trade patterns. It also enables the impact of trade on the structure of national economies and on the differential returns or payments to various factors

of production. He concluded that world trends in profits from trade always seem to favour the rich countries more than the poorer countries, which lag behind.

2:2:1:2 The 'New' International Trade Theories

Riedel (1991) opines that, perhaps the most interesting and controversial proposal to be derived from the new trade theory is the idea of using trade restrictions to give domestic firms a strategic advantage in world markets. It is believed that a role for strategic trade policy requires as a minimum that domestic firms in developing countries have the potential to establish a substantial position in world markets. Also by the same token, LDC governments can make a credible impression on foreign competitors by announcing trade policy initiatives (Krugman, 1986). But in reality, there are few firms in LDCs with a commanding presence in world markets and few governments that are sufficiently well financed to make an aggressive strategic trade policy credible to foreign competitors. Also as long as this is the case, the potential for this policy would seem extremely limited for developing countries.

Srinivasan (1986b), on a seemingly more relevant application of the new trade theories discusses where oligopolistic foreign firms use their market power in small LDCs to extract rent. Srinivasan (1986b) shows how an optimal lump sum tax on the foreign firm combined with an optimal subsidy can capture the oligopolist's rent for the host country. He, however, sounded more pessimistic in his conclusion. He posits that 'while the logic of this argument is impeccable,

whether many developing countries are capable of designing or credibly implementing such two-part tariff is in doubt'.

Another recent argument for restricting trade is the idea of import protection as export promotion, a version of the old infant-industry argument (discussed in detail later in this chapter) but one, which supposedly avoids pitfalls of the original. By this argument, (Westphal 1982, Pack and Westphal 1986) suggested that protecting infant export industries is superior to protecting import-competing industries because export activities stimulate greater efficiency and productivity growth through direct competition in foreign markets and because expanding market opportunities abroad allow scale economies to be realised more quickly, reducing the cost and shortening the duration of infant-industry protection.

But Srinivasan (1986b) remains sceptical, arguing that except perhaps a few large developing economies that are at the same time sufficiently advanced technologically, developing countries by and large are unlikely to have domestic markets for high technology products, large enough for this argument for protection to be of any significance. Thus Srinivasan (1986a) concludes: *"the exercise of an interventionist trade policy by developing countries, based on recent theories of oligopolistic competition and increasing returns, is unlikely to be beneficial".*

In conclusion, Krugman (1986) echoes these sentiments when he argues that there is nothing in the theory so far that would restore intellectual respectability to the strategy of import substitution. Import substitution industrialisation looks even worse in the new trade theory than it does in standard theory.

Michael Porter (1990) chose an inductive approach and built a complex framework for analysing the competitiveness of nations. Porter's fundamental departure from the standard neo-classical factor endowment theory is to posit a *qualitative* difference between basic factors and advanced factors of production. He argues that standard trade theory applies only to basic factors like undeveloped physical resources and unskilled labour. For the advanced factors, which are more specialised and include highly trained workers with specific skills, and knowledge resources such as government and private research institutes, major universities and leading industry associations, according to Porter (1990), standard theory does not apply. It is noteworthy to say that some of the basic factors are abundant in the LDCs such as Ghana and the other ECOWAS countries; what is needed is FDI to transform these resources into secondary products to boost trade and economic growth as suggested by Kirzner (1973).

The general equilibrium argument was that every industry competed with every other industry for resources. Which means if one industry received privileged access to resources, other industries would be deprived of these resources.

But by the end of the 1980s, relatively few scholars or practitioners accepted the theory of factor proportions and comparative advantage as an adequate explanation of the observed patterns of trade, particularly for manufactured goods traded mainly among industrialised countries. Todaro (2000) for example questions the basis of the major crucial assumptions of the model and how these assumptions work in the real world. In relation to LDCs such as Ghana, Todaro (2000) again questions the implications of the model and theories for the trade and financial prospects on these nations when a realistic assessment of the actual mechanism of international economic and political development is made.

Whatever way it is argued, the main link of the factor endowment theories with the thesis focus lies in the ability of LDCs to make these natural factor endowments to attract FDI, with which they could be utilised towards the production of manufactured and semi-processed goods for export to boost trade and enhance economic growth and development as suggested by Kirzner (1973).

2:2:1:3 The Timing Of Trade Liberalisation

Riedel (1991) opines that few development economists would dispute that countries should 'get prices right', but some argue that it should not be done while a macro-economic stabilisation programme is in progress. As Sachs (1985) states: "*The success stories of East Asia, so frequently pointed out to as illustrations of the benefits of export led growth, do not demonstrate the utility of*

trade liberalisation in the midst of a macroeconomic crisis". As he correctly points out, in Japan, South Korea and Taiwan, trade liberalisation, as it was, occurred only after macro-economic stability was achieved (Sachs, 1985). This further suggests that the attempt to stimulate exports at all costs through trade liberalisation or aggressive depreciation of the exchange rate can often undermine a stabilisation programme and thus postpone a resolution of debt crisis.

Riedel (1991) concluded that to present trade liberalisation as an alternative to fiscal and monetary control, or even as a necessary ingredient of stabilisation package 'is to set up a straw man'. He put the record clear that macro-economic stability is more a requirement for successful trade liberalisation than the reverse. Macro-economic stability and a very illiberal trade regime are perfectly compatible, he concluded.

But in the less developed countries eager to attract FDI firms to invest in their countries, an illiberal trade regime could mean restricted FDI activities in these countries. In the same vein, macro-economic stability is crucial for the attraction of the FDI firms into these countries. Thus, a blend of the two policies – strong macro-economic stability and liberalised trade (incorporating all the orthodox prescriptions) - would seem to be convenient and conducive for investment attraction very much than wholesome and total adoption of illiberal trade for the less developed countries. The Turkish experience after 1980 is instructive. At the height of a debt crisis (1978 – 1980), Turkey implemented a stabilisation

programme incorporating all the orthodox prescriptions – elimination of quantitative restrictions on imports, free trade, massive real depreciation of the currency and unification of the exchange rate. The results in terms of lowering inflation, restoring growth and expanding exports, which in only five years went from 2% to 15% of GNP, were astounding.

It is noteworthy to caution, however, that even if these lessons are relevant, it does not mean they will necessarily work the same 'magic' in the less developed countries of Africa as they have elsewhere. The incentive structured investment attraction and trade promotion policies associated with the EP strategy may be (and probably are) as appropriate in LDCs of Africa as they are elsewhere, even though they may not yield results that are at all comparable with those obtained elsewhere. Unfortunately, as Riedel (1991) puts it, this point is often lost in the vain search for 'key to progress in Africa and other regions that lag behind, which more often than not seems to lie in the realms of culture and politics rather than economics'. Trade policy, for that matter will remain a contentious issue with contradicting arguments from trade theorists.

2:2:1:4 Gains From Trade

Spencer (1992) observed that recent developments in international trade theory have shown that there may be domestic gains from trade policy targeted at particular industries facing foreign competition. She continues to argue that policies such as export subsidies can affect the underlying structure of the 'game' so as to allow domestic firms to achieve extra profits from exports that exceed

the amount of the subsidy. Where this is the case, she concluded, the policy would have resulted in a net gain to the domestic economy.

Pomfret (1995) on the other hand argues that in a two-country world, gains from trade arise whenever the autarchy prices differ between the two countries. Such a divergence may be due to differences in either community indifference curves or in the production possibility sets or both. He concluded that agnosticism about the income distribution effects accompanying international trade – which constitutes a significant yardstick for measuring economic development of a country - is not incompatible with the conclusion that there are gains from trade. Pomfret (1995) concluded that producing at a particular level and exporting a particular good enables a society to consume some combination involving more of both goods than at the autarchy point, for example, thereby yielding unambiguous gains from trade which contribute to the per capita income of a country, infrastructure building and the general well being of the people of that country. Hence a country's continuous achievement of sustainable gains from trade is crucial for economic development. And for the LDCs such as Ghana and the other ECOWAS countries, this depends significantly on foreign investment.

The assumption so far is that, in traditional trade theory, trade gains accrue to nationals in the trading countries. But as criticised by Todaro (2000), given the gross unreality of the assumption, perhaps there is the need to examine the implicit notion – which is rarely challenged – that if developing countries do

benefit from trade, it is the people of these countries who reap the benefits. The issue here is who owns the land, capital and skills that are employed to yield results or gains from trade? Are they nationals or foreigners? If both, by what proportions are the gains from trade distributed?

Most foreign owned mining and plantations in developing countries pay very little rents for the rights to use land. They bring their own foreign capital and skilled labour, hire local unskilled workers at subsistence wages and have a minimal effect on the rest of the economy even though they generate significant export revenues.

The distinction between Gross Domestic Product (GDP) - which is a measure of the value of output generated within defined geographical boundaries and Gross National Product (GNP) which measures the income actually earned by nationals of that country - becomes extremely important, in that it helps to measure the level of the LDCs' economic growth and development. In so far as the export sector of the economy is foreign owned and operated, GDP will be much higher than GNP. Consequently, few of the benefits of trade will actually accrue to the LDC nations. Foreign export earnings may exceed the total value of domestically accrued income.

The point this study stresses here is that, with the proliferation of multinational corporations and the increasing ownership of the means of production in a wide range of countries, aggregate statistics for LDC export earnings (and indeed

GDP) may mask the fact that LDC nationals, especially those in lower income brackets, may not benefit at all from these exports. The major gains from trade may instead accrue to non-nationals who often repatriate large proportions of these earnings, and sometimes to members of domestic governments and their friends informally sharing in these earnings.

There is, therefore, the caution that export performances by developing countries can be deceptive, unless one can analyse the character and structure of export earnings by ascertaining who owns or controls the factors of production that are rewarded as a result of export expansion. It is only then that one can ascertain the real gains from the trade of developing countries.

2:2:1:6 Contribution Of Trade To Economic Development

Meier (1976) opines that the importance of foreign trade is particularly great in countries that lack engineering industry and are obliged to import almost all their machinery. Ghana and the other ECOWAS countries fall into this category of countries and hence the importance of foreign trade in their economic development, for as put by Meier (1976),"*.....it is trade that gives birth to the urge to develop, the knowledge and experience that make development possible and the means to accomplish it.*"

In a LDC such as Ghana, exports may easily become the limiting factor on productive investment and on the successful development of the economy. The common experience in these countries is that exports are already a dangerously

large element but that they are not large enough to give adequate elbowroom in the financing of a new investment. Foreign trade opens up large possibilities of immediate gain by concentrating on a product that foreigners will buy and for which they pay a relatively attractive price. Foreign trade helps developing countries to transform their subsistence into monetary economies by providing a market for cash crops, and raises the standard of living of these economies by bringing into these countries a higher return for their efforts.

But as Meier (1976, 1984) cautions, foreign trade does not and cannot do more than this. It does not, for example, result in an automatic modernisation of agricultural methods; yet these LDCs need modernisation of their agricultural methods to enhance production of semi-processed and manufactured goods. It does not guarantee that the domestic market which it increases or widens will nurse local industry to factory-scale volume; yet these countries require this.

Thus development may be blocked by a social structure that keeps the response to economic forces within narrow channels and itself withstands transformation by those forces. The narrow channels need to be widened, and for LDCs such as Ghana and the ECOWAS countries, FDI help will be required. But an expanding foreign demand will not be translated into self-sustaining process of development in every sector of the economy in these countries unless many other conditions are fulfilled simultaneously. In this particular instance, the conditions are mainly development preconditions (See chapter 7). For as Meier

(1976, 1984) argues, if these conditions are not fulfilled, the same obstacles will stultify development so long as the forces of change are purely economic.

2:2:2 Trade Fairs

One of the crucial independent variables used in the empirical analysis in chapter 7 of the study hinges very much on the role of trade fairs. To this extent, trade fairs are examined in this section with the focus on their influence on investment attraction and economic development in LDCs such as Ghana and the other ECOWAS countries.

Bello and Hiram (1986) observed in their studies on this subject area that, although trade fair expenditures are estimated to be the third highest promotional expense after television and newspaper advertising for most firms in the United States of America, textbooks generally devote little attention to this aspect of trade and export promotion. The position is bleaker when international trade and general fairs are concerned. Despite being a crucial activity in many exporters' foreign operations and, for developing countries, a crucial tool in the search for additional foreign investments, apparently few research studies are publicly available.

2:2:2:1 Role Of Trade Fairs

The principal advantage of trade fairs – whether domestic or foreign – is that they bring together numerous interested buyers and sellers and potential investors in

one location for a relatively short period of time. In the opinion of Couretas (1984), trade fairs often enable exporters to access hard-to-reach markets or buyers.

Kerin and William (1987) outline a number of functions served by trade fairs, which can be important to the exhibitor. These include: identification of prospects, servicing of current customers, introduction of new or modified products, enhancement of corporate image, testing of new products, improvement of corporate morale, gathering of competitor information and the making of actual sales. But for LDCs such as Ghana (and indeed other African countries), perhaps Kerin and William (1987)'s first point of "identification of prospects" – although not clearly defined in specific terms – may be of most interest. This is because developing countries – particularly African countries – use trade fairs and general fairs to serve dual purposes: to look for the "hard-to reach" buyer and also to expose the country to foreign investment attraction. But this may depend on whether the fair is local or overseas. The case of Ghana is discussed in chapter 3 and in greater detail in chapter 7.

Trade fairs have the potential of providing opportunity for exporters of all kinds to learn more about their relevant industries and the markets covered. Since this learning will be used to plan future strategy (production, sales, investment, etc.) a second worthwhile measure of performance is the extent to which exhibition at the trade fairs leads to marketing and organisational chances. Trade fairs also provide the chance to interact with different kinds of businesses. Some

exporters, for example, will be chiefly interested in writing orders on the exhibit stand, whereas others will expect to uncover leads or investment opportunities of developing countries to be pursued after the fair.

Kleinschmidt and Ross (1984) report that trade fairs are the third most important source of external information for small high-technology exporters (after foreign agents / distributors and customers). For developing countries organising a trade fair, this is an opportunity to explore possible foreign technology transfers into the exporter's business, or even the country as a whole. But this may be dependent on personnel of foreign firms being willing to travel to the LDCs to participate in these fairs. This is measured against the LDCs' own initiative of consistently participating in overseas trade fairs to look for foreign investors (see chapter 7).

In his studies, however, Huynen (1973) argues that LDCs such as Ghana and the other ECOWAS countries have limited possibilities in staging trade fairs and exhibitions on a Western model. In other words, Huynen (1973) contends that LDCs would not benefit hugely from mainly local agrarian fairs and exhibitions since most of the LDCs's main economic mainstay is in agriculture. He argued, *".....the actual absence of a market as a result of an inadequate economic infrastructure in these countries takes away every function from trade fair and exhibitions system on a Western pattern."* Huynen (1973) continued to argue that, on the one hand a sufficiently adequate and sufficiently differentiated home production is lacking in the LDCs; on the other hand, purchasing power, which

would make participation for the industrialised countries attractive, is equally absent. Table 2-2 shows some of the disadvantages for LDCs and local fairs.

Table 2-2 Advantages And Disadvantages Of Trade Fairs

Advantages For All Exhibitor Countries	Disadvantages For Least Developed Countries
Identification of prospects	Low prospect of investment attraction in local fairs
Servicing of current customers	Former colonial rulers with ready alternative markets
Introduction of New and Modified products	Predominantly traditionally old agricultural products
Enhancement of corporate image	Image of producer of non-manufactured goods
Testing of new products	Inadequate technology to produce new products
Making of actual sales	Sale of primary commodities with falling prices
Gathering of competitor information	Published information sometimes untrustworthy

Huynen's (1973) argument implies that the development of quality and economically successful trade fairs in a country is dependent on the growth of the economy of that country. Kleinschmidt and Ross' (1984) argument that trade fairs provide LDCs opportunity to explore possible foreign technology transfers is a sound one. But it can be argued that for the foreign investing firms to transfer technology into LDCs such as Ghana and the other ECOWAS countries, the recipient countries must accomplish conditions that would facilitate the easy transfer of such technology into the particular country. If for example the infrastructure of the particular LDC is inadequate, then such technology may not be easily transferable into that country. Thus a certain level of development as argued by Huynen (1973) and some crucial development preconditions as suggested by Rostow (1971) may be necessary.

Denis and Depelteau's (1985) view that trade fairs have a powerful effort on export expansion, is another sound one. But for the LDCs, again as argued by Huynen (1973), lack of capital formation, insufficient industrialisation, and the average low educational level in these countries mean that manufacturing and trade in mass consumer goods is impossible and hence the non-availability of sufficient manufactured goods to display at local fairs for export expansion. However, since the agriculture sector constitutes in LDCs a high share of products, agricultural based products can form the subject of trade fairs and exhibitions in LDCs.

But it can be argued that these agricultural products are products, which the developed industrial countries, during centuries of colonial rule (and as present), obtained from these LDCs and they command a relatively ready market. Also, as argued earlier on in the section, for LDCs, the benefits of trade fairs can lie in providing real opportunities for investment attraction which brings along with it technology transfers, production and manufacturing expansion.

In view of the arguments advanced above, particularly in the light of Huynen's (1973) scepticism, LDCs best opportunities for investment attraction as far as trade fairs are concerned may well be stronger with their consistent participation in overseas trade fairs - where potential 'reluctant-to-travel' investors can be reached. This is empirically tested in chapter 7.

2:2:3 Technology-Based Trade Theories

The idea of technology based international trade theories hinges mostly on innovative activity as well as the major contributions that FDI can make to economic growth and development (particularly LDCs) through the introduction of new technology. That is the ability of producing or manufacturing industries to develop new machinery or production methods, which are used or utilised to increase production of manufactured goods in these LDCs thereby boosting trade and export for the countries.

The theory states that where continuous innovative activity sustains a substantial part of international trade, then one might expect particularly heavy trade flows among the higher income countries that are able to supply the skills.

The location of innovative activity in technology based trade theories is not random. Innovation and improvements in a new product development require highly skilled and specialised labour so that new goods will tend to be produced in the most skill - abundant country; and for the LDCs, the presence of FDI would be crucial. Hirsch (1967) combined the technological gap approach with Linder's (1961) theory to provide an explanation of the strong trade and technology links among high-income countries, despite the similarity of their factor endowments. In the LDCs, FDI could provide similar strong trade and technology links as argued by Hirsch (1967).

But as UNCTAD WIR (1999) cautions, as commercial enterprises, most companies transferring technology - mainly to developing countries – in principle do not have an interest in transferring knowledge to and supporting innovation in foreign affiliates beyond what is needed for the production process or product at hand. What this means is that, developing countries cannot expect that, by simply opening their doors to these investing companies, their technological bases will be automatically transformed. Deficiencies in technological learning and transfer in developing countries can mean that markets do not create technological dynamism. At best, they can lead to a better use of static endowments but not to the continuous upgrading that competing in the new context requires. Stewart (1972, 1974a and b, 1977) Steward and James (1982) Pickett *et al* (1974) summarised these arguments by expressing concern that the superior quality of capital-intensive products manufactured by FDI firms are expensive and beyond the means of the poor. They are also concerned about production of inferior or second-rate quality products among the characteristics of technology appropriate for LDCs.

It can, however, be argued that the technology transfers of FDI firms, which carry with them technologies of production, tastes and styles of living, managerial philosophies and diverse business practices including co-operative arrangements and innovative ways of manufacturing in the LDCs, overshadow the criticisms against them. Ahiakpor (1990) also observes that one major contribution that FDI makes to LDCs such as Ghana and the ECOWAS countries' economic

development is the introduction of new technology, which brings improved products, and techniques of organising firms, including production and marketing. Griffin (1977) also argues that FDI technologies' ability to produce cheap quality 'employment-intensive' products would promote economic growth and development, particularly when such products are in accord with the tastes and preferences of consumers, yield profits and adopt policies that encourage their continuous production.

However, as Todaro (2000) cautions, they may divert to engage in activities, many of which have little to do with the development aspirations of the countries in which they operate. Goames-Casseres and Levy (1989) also view technology flows as intangible. To this end, they argue that the technology, which flows through many of the recipient countries, are not measured by balance of payments accounts. Even where balance of payments data exist, they are only rough measures of the amount of technology being transferred. This situation may create difficulties for developing countries in the calculation of accurate figures of balance of payments.

But as Ahiakpor (1990) concludes, there is little charge to the inappropriateness of FDI technological activities in LDCs. Appropriateness of technology in the LDCs should be decided on production characteristics, and the effect on the profitability of firms. Since profits are the most important foundation of economic growth and development, governments of LDCs must focus more on these and

create the enabling investment attraction environment to win more FDI for more increased manufacturing for exports in their respective countries.

2:3:0 Industrial Development Theories

In this section, the study will move from pure trade theory to trade and export development theories by examining a wide range of trade and industrial development policies. The focus of this section is to highlight the importance of industrial development policies as useful practices that can attract increased FDI into LDCs such as Ghana and the other ECOWAS countries in their dealings with the industrial world as well as with one another. The section also discusses some important macro-economic policies. The section discusses a variety of trade policies including Import Substitution (IS), Export Promotion (EP), Exchange Rates (ER) and Devaluation (DV).

2:3:1 Import Substitution Versus Export Promotion / Orientation

In his Ohlin lectures on protectionism, Bhagwati (1988) observes that few economists have seriously doubted the significance of the influence of ideas on policy since Keynes wrote: "*.....the ideas of economists and political philosophers, both when they are right and when they are wrong, are more powerful than is commonly understood*"; not many would dispute this observation.

Although Bhagwati himself would be the first to admit that his ideas are not necessarily infallible, only few can deny that many of his ideas have had significant impact on policy (Balasubramanyam and Salisu, 1991).

Much of Bhagwati's works, in the fields of international trade and economic development, relate to the relative merits of import substitution (IS) and export promotion (EP) / export orientation (EO) development strategies. This study proposes to discuss in some detail the proposition that FDI attracted by countries pursuing an EP strategy will be higher than that attracted by those pursuing the IS strategy. At first sight, the proposition that EP countries are likely to be recipients of a larger volume of FDI relative to IS countries runs counter to conventional wisdom. This is because there is certainly a strong presumption in the early literature that barriers in the form of tariffs and quotas on imports induce flows of FDI, resulting in the phenomenon known as 'tariff-jumping' FDI. What this implies is that, in the face of barriers to exports, FDI firms would choose to penetrate foreign markets through investment. They would also have the added advantage of investing in markets protected from import substitution. Furthermore protection, however, is but one among several location-specific factors that induce FDI firms to invest abroad with the view of exploiting the ownership-specific advantages they possess. Also, it is not always possible to separate the influence of protection on FDI from other factors such as market size and growth potential of host countries.

But in his incisive Esmee Fairbairn Lecture on 'investing abroad' delivered at the University of Lancaster, Bhagwati (1985) draws a distinction between FDI propelled by market forces and that induced by policy measures. The latter includes both IS-induced FDI and EP-induced FDI. He draws a crucial distinction between the inducements by the two types of development strategies. In the case of the EP strategy, although policy-determined incentives such as tax concessions have played a role in attracting FDI, the major incentive, as Bhagwati (1985) puts it, 'has been simply the conjunction of cheaper costs and the EP orientation'. By contrast, in the case of the IS strategy, FDI has been almost exclusively policy driven. As Bhagwati (1985) puts it, 'the IS strategy, on both domestic investments and FDI, has been cut from the same cloth: protect your market and attract home-based investments to serve the market'. He argues that the magnitude of IS-oriented FDI will ultimately not be as large as EP-oriented FDI for the simple reason that the host-country market, which induces it in the first place, would limit it.

Researchers have also argued that the IS strategy with its policy-oriented inducements will immediately attract large volumes of FDI. But whether or not such investment flows would be sustained over time is arguable. Balasubramanyam and Salisu (1991) extended this argument by positing that the IS strategy is likely to result in a mere relocation of investment from home countries of the investors to the host countries, induced by restrictions on imports

in the home countries rather than by considerations of comparative advantage and location-specific advantages offered by the host countries.

In contrast, FDI in EP countries is likely to be induced primarily by the location-specific advantages they offer, including the availability of relatively cheap labour and raw materials. In other words, the EP type FDI is likely to conform to the dictates of comparative advantage and market forces, resulting in sustained inflow of investment over time.

Bhagwati and Srinivasan(1975) and Geenway and Chog Hyun Nam (1988) observed that it is an established fact that countries pursuing an IS strategy are rife with distortions in their products and factor markets. Frank (1980) also observes that foreign firms weary of unexpected policy changes or threat of potential competition from other investors are unlikely to invest in countries pursuing the IS strategy. This is reinforced by Balasubramanyam and Salisu's (1991) argument that while policy-oriented incentives such as tariffs and quotas on imports, which delimit competition from imports, and subsidies and tax concessions do induce FDI under the IS strategy, such incentives are likely to be artificial. They tend to be limited in the sense that they are confined to industries and products subject to import restrictions, and their continuation over time is subject to the whims of policymakers.

Streeten (1973) and Keesing (1979) observed that outward-looking (EP) development policies *"encourage not only free-trade but also the free movement*

of capital, workers, enterprises and students....., the multinational enterprise and an open system of communications." By contrast, inward-looking development policies (import-substitution) stress the need for developing countries to evolve their own styles of development and to control their own destiny. This means policy to encourage indigenous "learning by doing" in manufacturing and the development of indigenous technologies appropriate to a country's resource endowments. But Todaro (2000) arguing for the proponents of inward-looking trade policies, argue that greater development and self reliance can be accomplished only if "you restrict trade, the movement of people and communications, and if you keep out the multinational enterprise, with its wrong products and wrong want-stimulation and hence its wrong technology."

Todaro (2000) however, observes that, in practice, the distinction between IS and EP strategies is much less pronounced than these advocates would imply. He argues that most developing countries have employed both strategies at one time or the other. This assertion is supported by Kirkpatirck (1987) who confirmed that in the 1950s and 1960s the inward-looking IS industrialisation strategy of the larger Latin American and Asian countries such as Chile, Peru, Argentina, India, Pakistan, the Philippines and Bangladesh was heavily IS oriented. By the end of the 1960s, some of the key Sub-Saharan African countries like Nigeria, Ethiopia, Ghana and Zambia began to pursue IS strategies, and some Latin American countries joined in; but this industrial

practice failed to attract increased FDI into most of these countries, particularly the African countries.

Thus as Bradford Jr. (1986) observed, since the mid-1970s, the EP strategy has been increasingly adopted by a growing number of countries. The early adopters of EP include South Korea, Taiwan, Singapore and Hong Kong. They were joined later by the likes of Brazil, Chile, Thailand and Turkey – countries that switched from an earlier IS strategy; these changes succeeded in winning increased FDI into most of these countries.

To conclude, there are good reasons to expect that the EP strategy will attract larger magnitudes of FDI, when economic size and political stability of countries are taken into consideration, than the IS strategy. It is noteworthy to state that most less developed countries within ECOWAS and Africa in general such as Ghana, Nigeria, Cote d'Ivoire, Uganda, Mauritius, etc. have adopted extensive EP FDI policies mostly on the advice of the World Bank and the IMF.

2:3:2 Secondary Goods Export Expansion: (EP Strategies)

expanding exports of manufactured goods

The development and expansion of LDC manufactured exports has been given great stimulus by the spectacular performances of EP countries like South Korea, Singapore, Hong Kong, Taiwan, Mexico and Brazil over the past four decades. Significant amounts of FDI have enhanced these performances. Key studies in this area have been done by Krueger (1983 & 1997), Bhagwati (1987 & 1988),

Edwards (1993), Yaghmaiam (1994) and Naqvi (1996). The export successes of recent decades, especially among the East Asia countries, have generated the primary impetus for arguments by some neo-classical revolutionaries - particularly those at the World Bank and the IMF. That is, LDC economic growth is best served by allowing market forces free enterprise and open economies to prevail while minimising government intervention. But Bradford (1994), Smith (1994) and Krugman (1994) all observed that the East Asia cases do not support this view. They argued that, in South Korea, Taiwan and Singapore (as in Japan earlier) the production and composition of exports were not left to the market, but resulted as much from carefully planned intervention by the governments who came out with policies that attracted significant FDI into these countries.

The demand problem for developing countries' export expansion of manufactured goods, though different in basic economic content from those for primary products, is nonetheless similar. For many years, there was widespread protection in developed nations against the manufactured exports of developing countries. This was a point well made by many developing countries at many UNCTAD Conferences in the past.

Helleiner (1972) made the point well:

"...of fundamental importance to the issue of third world manufacturing export prospects are the barriers which are erected by developed countries to restrict entry of these products to their own markets. Tariffs, quotas and other barriers in

the markets of the rich constitute a major impediment to large-scale industrial exports. The tariff structures of the rich nations are such as to offer the greatest degree of effective protection to their producers in the very industries in which poor countries are most likely to be competitive – e.g. light industries relatively intensive in the use of unskilled labour such as textiles, footwear, rugs, sporting goods, handbags, processed foodstuffs, etc." But as argued by Ahiakpor (1990) FDI firms in LDCs could influence their home countries to secure access to their (overseas) markets for the export of host-country manufactured goods.

Streeten (1973), Cline (1982) Fields (1984) and Kirkpatrick (1987) observed that, all in all, trade restriction by developed countries cost developing countries at least US$ 40 billion a year in foreign exports and lowers their GNP by more than 3%. The *Economist* (1994) observed that if the Uruguay Round of multilateral GATT (now WTO) negotiations can effectively be implemented, developing country manufactured exports could grow by US$ 30 billion to US$ 40 billion annually. Again, the presence of FDI would be hugely important. The *Economist* (1994) concluded that, whether displaced high-wage workers in developed country manufactures would continue to permit the unimpeded entry of low-wage LDC products remain to be seen.

2:3:3 Import Substitution (IS Strategies)

looking inward but still paying outward

Theoretically, Import Substitution (IS) is an economic development aimed at industrialisation based on the domestic market. It is a strategy described by some writers as *"...looking inward but still paying outward."* (Todaro, 2000). Some countries still follow this trade and economic development strategy for both economic and political reasons, although pressure from the IMF and the World Bank lay heavy opportunity costs on such endeavours.

As Little, Scitovsky and Scott (1970) also argue, the IS strategy of industrialisation has been largely unsuccessful. This view was complemented by Kirkpatrick (1987) and Schnitz (1984) when they argued that IS, which may have been the idea of "protecting" the infant industry "to grow" never matures. Many infant industries never grow up; they are content to hide behind protective tariffs and most governments loathe forcing them to be more competitive by lowering tariffs. Practically, IS policies can worsen the local distribution of income by favouring the urban sector and higher-income groups while discriminating against the rural sector and lower income groups.

With regard to the above arguments, Helleiner (1972) concludes:

"...it is difficult to find any rationale for the pattern of import substituting industrialisation which has, consciously or not, actually been promoted. It has given undue emphasis to consumer goods in most countries; it has given

insufficient attention to potential long-run comparative advantages . i.e. resource endowments and learning possibilities; it has employed alien and unsuitable capital-intensive technologies to an extraordinary and unnecessary degree. The consequence has too frequently been the creation of an inefficient industrial sector operating far below capacity and creating very little employment, very little foreign exchange savings and little prospect of further productivity and growth."

In addition, such policies are not attractive to foreign investors who would like to manufacture and export under the EP policies. Thus it can be argued that the objective of investment, trade and economic development policy must be gradually to bring incentive structures, and thus the relative efficiencies of various industrial activities into some sort of balance, thereby encouraging domestic manufacture of intermediate and capital goods at the expense of importable consumer goods and the development eventually of manufacture for export. Thus as argued by Frank (1980), Bhagwati (1985), Balasubramanyam and Salisu (1991), Bradford (1994), Smith (1994) and Krugman (1994) the pursuit of the EP strategies to induce FDI in developing countries, which is crucial for expanding exports, would prove a more positive route to follow.

2:4:0 Foreign Exchange Rates

rates, controls, and devaluation

As briefly discussed earlier in the chapter, the country's official exchange rate is the rate at which that country's Central Bank is prepared to transact exchanges

of its local currency for other currencies in approved foreign-exchange markets. Official exchange rates of many developing countries (particularly in Sub-Saharan, Africa and Latin America) are usually quoted in terms of US dollars – thus we have so many *Cedis*, Naira, Kwachas, Shillings, Pesos, Pounds or Yen to the Dollar.

Normally, in theory, the rate should be that at which the domestic demand for a foreign currency such as dollars equals its supply in the absence of government regulation and intervention. But if the official price for foreign exchange is established at a level that, in the absence of governmental restrictions or controls would result in an excess of local demand over the available supply of foreign exchange, the domestic currency concerned is said to be overvalued.

Many developing countries usually find themselves in situations of excess demand. In situations like this, theory, as confirmed by Krueger (1974) indicates that three basic policy options remain available for central banks to maintain or stabilise the official rate of exchange:

(i) the Central Bank can attempt to accommodate the excess demand by running down their reserves of foreign exchange (Mexico did this from 1991 to 1994; and also Thailand, Malaysia, Indonesia and the Philippines from 1995 – 1997)

(ii) borrow additional foreign exchange abroad and thereby incurring further debts (many African countries did this in the 1980s)

(iii) countries can regulate and intervene in the foreign-exchange market by rationing the limited supply of available foreign exchange to "preferred" customers. This is commonly known as *exchange control*

It is quite easy for LDCs' governments to find themselves 'trapped' in an overvalued official exchange rate. This could be due to some widespread IS programmes they might have chosen to embark upon. But as discussed earlier in this section, overvalued exchange rates can lower the domestic currency price of imported consumer goods, especially luxury products. And for developing countries, such situations could prove very costly, since FDI firms look for host countries with stable and regulated foreign exchange controls as suggested by Dunning (1973a) and Hood and Young (1979).

In theory, these countries can limit such unnecessary and costly imports by establishing import controls (mostly physical quotas) or by setting up a dual or parallel exchange rate system with one rate, usually highly overvalued and legally fixed and applied to capital and intermediate-good imports; the other alternative is introducing a much lower and illegal rate (or free floating) for luxury consumption-goods import. Such dual exchange-rate systems make the domestic price of imported luxury very high while maintaining the artificially low and thus subsidised price of producer-good imports.

But the theory can have setbacks. Dual exchange rate systems such as exchange controls and import licences can present serious problems of administration and can promote black-markets, corruption, tax evasion and rent seeking. Todaro (2000) concludes, *"...such preferred customers are often identified in the literature as "rent seekers" because they spend a great amount of time and effort engaged in activities such as bribery designed to capture the "economic rent" generated by government-induced price distortions like overvalued exchange rates."*

Theoretically, in the absence of effective government intervention and regulation of the foreign exchange dealings of its nationals, overvalued exchange rates have a tendency to exacerbate balance of payments and foreign debt problems simply because they cheapen imports while making exports more costly. Most developing countries encounter such problems from time to time. Again, trade policy theory suggests that chronic payment deficits resulting primarily from current account transactions (exports and imports) can possibly be ameliorated by currency *devaluation.* This action – devaluation – devalues the country's currency when the official rate at which its central bank is prepared to exchange the local currency for dollars is abruptly increased.

An alternative to this would be to allow foreign exchange rates to fluctuate freely in accordance with changing conditions of international demand and supply. But

this may not be desirable – especially in developing countries that are heavily dependent on exports and imports. This is because they are:

(i) extremely unpredictable

(ii) subject to wide and uncontrollable fluctuations, and

(iii) susceptible to foreign and domestic currency speculation

Another point worth discussing under LDC currency devaluation in the light of the above discussion concerns the effect on the country's domestic prices. Devaluation has the immediate effect of raising prices of imported goods in terms of local currency. For example imported shirts, shoes, radios, records, foodstuffs and bicycles in Ghana that formerly cost *x Cedis* now cost *(1+d)x Cedis* depending on the percentage magnitude of the devaluation, *d*. If as a result of these higher prices, domestic workers seek to preserve the real value of their purchasing power, they are all likely to initiate increased wage and salary demands. Such increases, if granted, will raise production costs and tend to push local prices up even higher thereby setting into motion a *wage-price spiral* of domestic inflation. In fact, a vicious cycle of devaluation – domestic wage and price increases, higher export prices and worsened balance of trade – could result.

Theoretically, these effects from devaluation could have distribution effects that can benefit certain groups of people at the expense of others. But as Nashashibi (1983) argued, although we cannot categorically assert that devaluation tends to

worsen income distribution, we may conclude that the more the ownership and control over the export sector is concentrated in private rather than public hands, the greater the likelihood that devaluation will have an adverse effect on income distribution.

2:5:0 Development Preconditions

2:5:1 Introduction

The term *development* may mean different things to different people. Todaro (2000) gives the traditional economic meaning of development as: *"...the capacity of a national economy, whose initial economic condition has been more or less static for a long time, to generate and sustain an annual increase of its GNP at rates of perhaps 5% to 7% or more*" (GDP is also used).

But the new economic view of development (Rostow (1971), Ahiakpor (1990), Todaro (2000), Dunning, (1993 b), Porter (1990), Lall and Streeten (1977), Hood and Young (1979), Pomfret (1995) and Fry (1993 and 1994) which came about through the experiences of the 1950s and the 1960s, when many third world countries did realise their economic growth-targets but the levels of living of the masses of people remained for the most part unchanged, signalled that some thing was very wrong with this narrow definition of development.

Consequently, some policy makers and economists clamoured for the "dethronement" of GNP / GDP and replaced them with the elevation of direct attacks on widespread absolute poverty, increasing inequitable income

distribution and rising unemployment. In short, during the 1970s, economic development came to be defined in terms of the reduction or elimination of poverty, inequality and unemployment within the context of a growing economy.

As confirmed by Todaro (2000) whatever the specific components, development in all societies must have at least the following three objectives:

- to increase the availability and widen the distribution of basic life-sustaining necessities such as food, shelter, health and protection
- to raise levels of living – including addition to higher incomes – the provision of more jobs, better education and greater attention to actual humanitarian values
- to expand the range of economic and social choices available to individuals and nations by freeing them from servitude and dependence.

2:5:2 The Development Process

Rostow (1971), Harrod and Domar (1950), Lewis (1954), Porter (1990) and Todaro (2000) have all put various patterns and theories of development forward. Post World War II literature on economic development highlights 4 major and sometimes competing strands of thought:

(i) the linear-stages of growth model: Rostow, (1971)

(ii) theories and patterns of structural change: Lewis (1954)

(iii) the international dependence: Harrod and Domar (1950)

(iv) the neo-classical free-market counter revolution: Porter (1990)

2:5:2:1 The 'Stage Model' Of Development

Some authors have developed "stage models" of economic development and growth; Notable among them are "Rostow (1971), Harrod and Domar (1950), Lewis (1954); but it is Rostow (1971) who leads in this and is discussed in more detail in this section. These models on the stages of development suggest that historical experience of the developed world in transforming their economies from poor agricultural subsistence societies to modern industrial giants had important lessons for the "backward" countries of Asia, Africa and Latin America.

In his model of development, - the stages-of-growth model - Rostow (1971) opined that the transition from under development to development can be described in terms of a series of steps or stages through which all countries must proceed. In his "*Stages of Economic growth*" Rostow (1971) identified all societies in their economic dimensions as lying within one of five categories: the traditional society, ***the preconditions for take off*** in self-sustaining growth, the take off, the drive to maturity and the age of high consumption.

The criteria for his stages of growth are as follows:

First, in the "*Traditional Society*": Rostow (1971) sees lack of modern scientific knowledge and a primitive approach to production. He also observed weak forming of capital and a static economy. The link between this criterion and the thesis focus is that, as argued by Ahiakpor (1990), Balasubramanyam and Salisu (1991), Baker (1999) Dunning, (1993b), FDI attracted into these countries could

provide the capital and scientific knowledge required to engender modern and efficient production of manufactured goods. The trade generated from the export of these goods could positively influence economic development in these countries.

Second, in the transitional LDC society, the "*Preconditions for Take-Off*" again require technical application of the sciences (technology and skills); also, there must be new political structures (political stability) good infrastructure bases to attract FDI in order to enhance rise in entrepreneur's function as well as islands of economic activity in the usually static LDC environments. Thus the need and importance of LDCs to create a favourable investment climate (e.g. development preconditions) as suggested by Guisinger (1986b), Dunning (1973a) and Hood and Young (1979) to attract sufficient FDI into these countries is emphasised. With sufficient FDI, as argued by Kirzner (1973) and Adam Smith (1976) LDCs such as Ghana and the ECOWAS countries could initiate a manufacturing "take-off" by transforming raw materials into manufactured goods for export. The profit generated from this trade as pointed out by Meier (1976 & 1984) and Ahiakpor (1990) could earn these countries valuable foreign exchange (MacDougall, 1960) and help to grow and develop their economies.

Third, with "*Take-Off*" growth becomes a normal condition and the rate of growth reinforces the upward surge, since the powers of growth strengthen each other. There is higher formation of capital, increasing entrepreneur's initiative, and the

political constellation is attuned to economic objectives of self-sustaining growth. But as observed by Meier (1976) the underlying duality of Rostow's concept of "take off" is not resolved. At one level the "take off" is a sectorial, non-linear, threshold notion with a forward, backward and spreading effect breathing regular innovation into a hitherto slumbering economy. At the other level it is highly aggregative with a sharp increase in savings.

Scholars and planners continue to wrestle with the same basic problem of economic development in a context of Rostow's writings. But for LDCs such as Ghana and the ECOWAS countries, although there may be little reason to accept the complete explanation of the national income and growth Rostow (1971) offers, there is good cause to pursue many of his many suggestions concerning the process by which industrialisation becomes rooted.

Fourth, the *"Drive to Maturity"* would be dependent entirely on technological support throughout the entire economic life focussed on the expansion of these countries. Linking this to the thesis focus of investment attraction, this is where the presence of significant FDI (with technology transfers and support) would be crucial to these LDCs.

Fifth, at the *"Age of High Mass Consumption"* the society achieves affluence. The production of mass consumer goods is perfect; the population shares in the material (consumer goods, social services) and in material progress (leisure time, cultural development, schools, hospitals, education, infrastructure). For the

LDCs such as Ghana and the other ECOWAS countries this would be the realisation of economic development as argued by Ahiakpor (1990).

In a further analysis of the economic history of various countries Rostow (1971) demonstrated that the various phases did not occur simultaneously everywhere. Namely the time to "Take-Off" is widely divergent. Furthermore, it appears that in the Western economies, the process between take-off and mass-consumption has become even smaller. In Australia for example, with its western style economy the fifth phase set in immediately after the beginning of the take-off without the phase of maturity even having been completed. This trend in direction of abridgement constitutes for the LDCs such as Ghana and the ECOWAS countries a favourable sign, particularly in their search for economic development via FDI.

Todaro's (2000) criticism of Rostow's "stages model" describing it as having implicitly assumed the existence of developed nations' attitudes and arrangements in underdeveloped nations is a sound one; but again, it can be argued that there is good cause for LDCs such as Ghana within ECOWAS to pursue Rostow's (1971) many suggestions (where feasible) concerning the process by which industrialisation becomes a reality.

In their model, the Harrod-Domar growth model, Harrod and Domar (1950) put forward the theory that mobilisation of domestic and foreign savings in order to generate sufficient investment to accelerate economic growth was of principal

importance. In the model, the rate of growth of income is the product of an average propensity to save and the inverse of a reasonably stable capital-output ratio. In these circumstances, "take off" consists of a recognisable discontinuity in the observed growth of income *per capita*, which under these conditions means a sharp increase in the savings rate.

But the criticism has to be made that, although these models reflected good bases for development, they no longer provide an accurate picture of the actual process of development, particularly in developing countries. As Todaro (2000) observed with Rostow's stage model, there exists the inappropriateness of some of the implicit assumptions of Western economic theory for the actual conditions in developing countries. For example Ghana and the other ECOWAS countries have very poor income and savings bases, and for that matter will struggle with this model. But again as observed by Meier (1976) in the case of Rostow's stages of growth, there may be good cause for developing countries to try their best to work towards the practicalities of the model, since the process is one by which economic growth and development as described by Ahiakpor (1990) becomes rooted.

In his model, Lewis (1954) suggested the mechanism by which underdeveloped economies can transform their domestic economic structures from a heavy emphasis on traditional subsistence agriculture to a modern, more urbanised and more industrially diverse manufacturing and service economy. By this he

suggested the traditional sector migrating to work in industry or mining on a seasonal basis, or even for a year or two before returning to their peasant farms. But in the LDCs such as Ghana and the other ECOWAS countries, as observed by Meier (1976), adult manpower cannot be spared from the traditional system of agriculture for more than two or three years without reducing agricultural output.

Lewis (1954) in tracing the process of economic development and/or expansion also emphasises that the key to the process is the use of capitalist surplus. The upshot of this is that as the capitalist sector expands, labour withdraws from the subsistence sector into wage employment, the surplus becomes even larger, there is still more reinvestment of profits and the process continues on progressively absorbing surplus labour from the subsistence sector. But as Meier (1976) points out, a serious limitation to Lewis' (1954) model is that it simply takes for granted the demand side of the investment process, particularly in developing countries. The question is does a capitalist class exist in developing countries, as Lewis (1954) believes? The major obstacle in many countries - particularly developing countries – is the absence of a capitalist class with the necessary ability and motivation to undertake long-term productive investment. For the LDCs of Ghana and the other ECOWAS countries, this is where the help of FDI could prove crucial.

Lewis' (1954) model, although simple, reflects the historical experience of economic growth in the West with assumptions that do not fit the institutional and

economic realities of most contemporary developing nations. Todaro (2000) criticised Lewis' model and demonstrated the invalidity of three main assumptions it carries in the case of LDCs:

(i) the reality of "capital flights" – where firms take out profits to add to deposits in Western banks is ignored

(ii) the notion that surplus labour exists in rural areas is actually incorrect in many developing countries; there is a substantial unemployment in urban areas but little general surplus labour in rural locations

(iii) the notion of competitive modern-sector labour market that guarantees the existence of real urban wages up to the point where the supply of rural surplus labour is exhausted

2:5:3 Specific Development Preconditions

Theoretically, the development of any nation will have to go through development preconditions such as political /social stability, stable macro-economic policies, - i.e. steady inflation, and exchange rates, adequate banking and financial institutions and regulations, price stabilisation, infrastructure e.g. transport, roads, communication, sea ports, bridges, energy supplies, railway networks, etc., and investment in human capital. e.g. education and health. Todaro (2000) summarises these preconditions as three factors or components for development (growth) that are of prime importance in any society: (a) capital accumulation,

including all new investments in land, physical equipment and human resources; (b) growth in population and hence eventual growth in the labour force; (c) technological progress (including infrastructure).

2:5:3:1 Capital Accumulation And Human Investment

Capital accumulation theoretically results when some proportion of present income is saved and invested in order to augment output and income. New factories, machinery, equipment and materials increase the capital stock of the country (the real net value of all physically productive capital goods) and facilitate the achievement of expanded output. These direct productive investments are supplemented by investments in social infrastructure - roads, electricity, water and sanitation and communication – that facilitate and integrate economic activities for development.

Similarly, investment in human resources, in theory, can improve its quality and thereby have the same or even a more powerful effect on production as an increase in skilled human numbers. The concept of investment in human resources and the creation of human capital is, therefore, analogous to that of improving the quality of and thus productivity of existing land resources through strategic investments for development. This will be useful for a developing country like Ghana and other ECOWAS countries, especially where FDI investments have been attracted to support the process of development. Good

examples here are the Irish Republic and India, which have developed computer manufacturing and software industries through investment in education.

2:5:3:2 Population Growth And The Labour Force

Theoretically, population growth and the associated eventual increase in the labour force has been considered a positive factor in stimulating development and growth. Todaro (2000), however, questions whether rapidly growing supplies of workers in developing countries stand to stimulate development by numbers alone. It can be argued that surplus labour – particularly in developing countries – could exert a positive or negative influence on development (growth). A positive impact will obviously depend on the ability of the economy and system of development of the country concerned to absorb and productively employ these added workers – an ability largely associated with the rate of capital accumulation and the availability of related factors, such as managerial and administrative skills.

The benefit will then be based, perhaps, on the proportion of well-educated workers who constitute a particular level of literacy within the country. This then forms an important development precondition that can help create a favourable investment climate, which will be instrumental in attracting FDI into that country.

2:5:3:3 Technological Progress

In its simplest form, technological progress (including infrastructure-building) results from new ways (usually automated) of accomplishing traditional tasks

such as growing crops, making clothing, building houses or producing manufactured goods. Labour augmenting technological progress – which is lacking in LDCs – occurs when the quality or skills of the labour force are upgraded – for example, by the use of computers, videotapes, television-sets, and other electronic devices.

Choi and Beladi (1996) conclude in respect of the above theories that the sources of development and economic growth can be traced to a variety of factors. Their argument continued that, by and large, investments that increase the quantity of these same productive resources, and those that raise the productivity of all or specific resources through invention, innovation and technological progress have been and will continue to be primary factors in stimulating development and economic growth in any society.

2:5:3:4 Political / Social Stability

Political stability, particularly in LDCs such as Ghana and the ECOWAS countries, (and indeed Africa), has become a crucial development precondition with particular reference to investment attraction for trade and export expansion. Unfortunately, within ECOWAS and Africa in general, political / civil unrest and coups d'etat have almost always been the norm.

In his analysis on fiscal incentives and FDI, Lim (1983), using the variables of *FDI, incentive package, natural resources* and *economic development*, observed

that the values of the F-ratio show that the two regression equations were statistically significant. He further observed that the values of the adjusted coefficient of determination (R^2) were not particularly low for cross-country studies of this nature. But he concluded, "*that they are not higher may be explained by the fact that certain elements of the determinants most frequently mentioned by foreign investors have not been included in the estimating equation. The most important of these are* ***political stability*****.....**" Lim (1983) continued, "*.....the data for these variables are not available and when they are, they cannot be quantified easily or meaningfully.*"

Hood and Young (1979) also wrote, "*....empirical studies of direct investment abroad have been handicapped by data limitations, and sometimes by unsatisfactory methodology.*" Thus the thrust of the literature on the measurement of political stability of LDCs, especially as a development precondition is that it is not easy to measure.

But as Obeng-Fosu (1999) argued, the industrial relationship between workers of a country and the government of the day could be used as a fair measure to political and social stability of a developing country. This is both interesting and important – particularly in relation to political stability serving as a development precondition for FDI. Potential foreign investors into LDCs appear to be most interested in political, social, civil and labour stability in the prospective FDI recipient country by relying on the frequency or otherwise of the civil unrest

(industrial strikes, demonstrations, rebellions, etc.) directed against the government of the day. Obeng-Fosu's (1999) argument, therefore, could be seen to tally with Lim's (1983) argument on the importance of political stability as a development precondition. But again as Lim (1983) argued, variables measuring political stability may not be easily or meaningfully quantified.

2:5:3:5 Macro Economic Policies

Rostow (1971) argues that, for a country's economic development to "take off", there is the absolute need for the fulfilment of sound and steady basic macro economic policies such as those that engender low inflation rate, steady exchange rate mechanism, efficient financial institutions and sound government economic policies. Dunning (1973a) and Hood and Young's (1979) argument that sound exchange rate regulation and control is conducive to a positive investment climate also emphasises why it is important for LDCs such as Ghana and the other ECOWAS countries to adopt efficient macro economic policies in their search for foreign investments, trade, economic growth and development.

2:5:3:6 Fiscal Incentives

Balasubramanyam (1984) argues that fiscal incentives such as tax reductions or holidays, accelerated depreciation allowances, investment allowances and subsidies given by LDCs to attract investments appear to be insignificant in attracting FDI. Instead he argued that studies based on interviews with managers of foreign firms revealed that market size, growth potential, political

stability and availability of infrastructure facilities (roads, transport, and communication) are more important development preconditions for FDI attraction than tax concessions.

Figure 2-3 Model of Development Preconditions

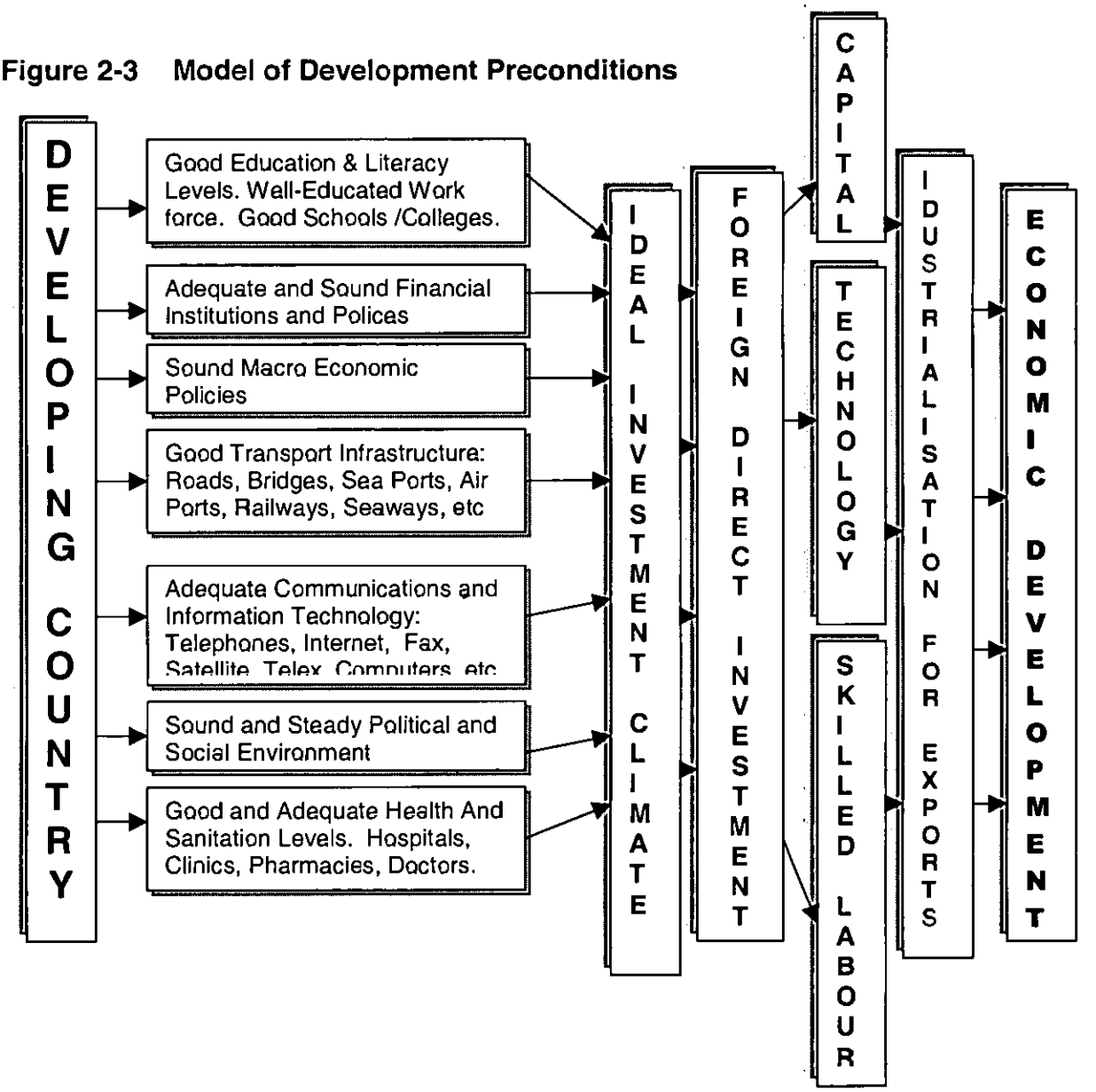


Figure 2-3 shows diagrammatically the model propounded by this thesis, linking the establishment of preconditions to the eventual achievement of further

economic development. The model reiterates the arguments advanced in the chapter; for example, Rostow's stages of development, which called for the modern scientific knowledge (technology) replacing a primitive approach to production, new political structures and good infrastructure bases to attract FDI. It also reiterates Dunning (1973a) and Hood and Young's (1979) argument for exchange rate regulation and control to create a favourable investment climate that could attract foreign capital, technology and skilled labour to significantly enhance industrialisation and the production of manufactured goods for trade and export, to bring about economic growth and development as argued by Ahiakpor (1990), Riedel (1991), Balasubramanyam and Salisu (1991).

2:5:3:7 Investment Climate

As discussed earlier in the chapter, most developing countries do not have the required capital, technology and skilled labour with which to progress with development and economic growth projects such as the manufacture and export of manufactured goods. In the case of LDCs such as Ghana and the other ECOWAS countries, for example, there is the need to attract foreign investments that will help bring in these resources.

To be able to attract the required FDI, developing countries do not necessarily require foreign aid monies or food - as have occasionally been the cases with some countries. What is required to continue to attract FDI into developing countries is the creation and sustenance of the ideal investment climate, first

through the accomplishment of basic development preconditions (See Figure 2-1), and then through trade and export promotion activities backed by sound and positive financial and macro-economic policies. Where these are accomplished, as have been the cases in the Irish Republic and India, investments such as computer manufacturing and software industries, for example, could be established in most of the developing countries with the help of FDI. Furthermore, as observed by Dunning (1973a) and reiterated by Hood and Young (1979) an investing climate suitable for attracting investment hinges greatly on the general attitude of the host country to foreign investment, political stability, limitation on ownership, currency exchange regulations, stability of foreign exchange, tax structure and familiarity with host country.

It can be argued that a favourable investment climate will attract FDI companies from the developed world into a particular country, where there are adequate levels of these conditions and where the recipient country is able to accommodate the skilled labour, capital and technology imported into the country; this is where significant existing levels of FDI could be crucial.

2:6:0 Conclusion

This chapter has outlined the literature on foreign direct investment, trade, trade fairs, industrial development, and development preconditions, including the need for a favourable investment climate. The main arguments have been FDI and the challenge of development, which looked at the impact of FDI on key objectives of

enhancing technological capabilities, boosting export and trade competitiveness and economic development. The UNCTAD-WIR (1999) concluded that although FDI could yield major benefits for host countries e.g. LDCs such as Ghana and the other ECOWAS countries, such benefits can only be enhanced through appropriate and efficient domestic investment, trade, export and economic policies. Governments of these countries, therefore, have an important role to play in creating the conditions that attract FDI (See chapter 7) and in maximising the positive contribution that FDI can make to economic growth and development for these countries.

Pure trade theory has also been shown as having the potential of benefiting developing countries in their quest for economic growth and development. It also has shown how inefficient trade policies in developing countries can accrue very little in trade gains to those countries as compared to the more efficient and stable ones.

Industrial development theories have been discussed. Developing countries could benefit from studying some of these theories, and their successful implementation could attract investments and lead to economic growth and development. Adequate development preconditions – including a favourable investment climate – are crucial for the attraction of FDI for industrialisation and other growth and development investments within the developing countries.

In the next chapter, the study will discuss how some of these investment, trade and development (growth) theories have been applied over the years in Ghana, as a country within ECOWAS.

Finally, the study observes that, there are a variety of issues that will strike any researcher or, indeed anyone at all conducting a literature review of FDI, trade and economic development theories and policies.

First, the literature is dated. Second, and more importantly, there is a lack of definitive clarity regarding the economic environment in which they have been observed to work, or in which their prescriptions may be expected to work. Thirdly, there are some marked differences in how certain scholars conceptualise the terminal state of some of these theories in respect of differing economies, cultures and environments throughout the world. They are almost always unable to agree on these issues. What is important, however, is the amount of economic growth and development the particular theory has made possible to a particular country.

Chapter 3

FDI, Trade, Industrial Development And Development Preconditions In Ghana And Ghana Within ECOWAS

3.0 Introduction

This chapter links Ghana's current FDI, trade, industrial development and investment climate policies and practices to the relevant literature and theories discussed in the previous chapter. Section 3.1 gives a general background of Ghana. Section 3.2 discusses Ghana's FDI attraction policies and practices. In section 3.3, trade in Ghana and Ghana within ECOWAS is discussed. Section 3.4 discusses Ghana's industrial development practices, concentrating on issues such as Import Substitution (IS) and Export Orientation (EO) policies, tariffs, relief, exports and tourism.

Section 3.5 discusses Ghana's exchange rate mechanism. In section 3.6, Ghana's participation in and organisation of trade and general fairs are discussed. Section 3.7 discusses the prevalent development preconditions that abound in Ghana. Ghana's investment climate is discussed in section 3.8.

3.1 Background

Until her independence from British colonial rule on 6th of March 1957, Ghana was called the "Gold Coast", a name given it by early Portuguese explorers who first set foot on the shores of the country in the fifteenth century. The name aptly

described the country's wealth in gold and natural resources that persist to the present day.

The pre-independence era of Ghana was characterised by relative domestic price stability and external equilibrium, and coincided with a golden age of consistently high world prices for Ghana's main export commodity, cocoa. The country enjoyed trade surplus every year except in 1956. This led to an accumulation of British Pound Sterling resources. The first three years after independence in 1957 (1958-60) were accompanied by relatively high rates of economic growth and a faster rate of expansion of the country's stock of capital assets. The country enjoyed high investment rates, larger accumulation of reserves and adequate import capacity to foster economic development.

But for the following five years, (1961-66), the domestic policies of Ghana's first President, Dr Kwame Nkrumah, which emphasised industrialisation, but from a Communist perspective, eventually led to severe economic problems for the country. Unprofitable investment decisions were made, and the industrialisation process was characterised by very high costs. This era marked the beginning of long-term crises of dis-equilibrium for the Ghanaian economy. Following the overthrow of the Nkrumah regime in 1966 through a military coups d'etat, the economy of Ghana continued its decline into the early 1980s (See chapter 6).

In 1983, the Provisional National Defence Council (PNDC) government launched an Economic Recovery Programme (ERP) aimed at resuscitating the economy.

The major policy thrust of Ghana's ERP in the investment, trade and industry sector has been to expand the production base of the economy - ideally utilising FDI - and to the building up the competitive strength of various industries in the country. By this, it was hoped that Ghana could take advantage of the opportunities offered by the new global environment of free trade.

As a result, the performance of Ghana's non-traditional exports products during the 1990s showed remarkable growth. Export earnings from non-traditional sub-sector, broadly defined to include processed traditional and agricultural commodities, also increased (See chapter 6). But despite the progress that was made, poverty remains a serious problem in the country. Whatever the ERP reforms have achieved has not been enjoyed across the country.

Poverty and unemployment in the rural areas are higher than the urban areas thereby giving rise to Lewis' (1954) theory of men becoming migrant labourers. It can be argued, therefore, that there is the need for significant foreign investment in Ghana to help mobilise the country's abundant natural factors (Heskcher-Ohlin, 1933) to industrialise, manufacture, export and improve upon its economic growth and development as argued by Clower *et al* (1966), Ahiakpor (1990), Hood and Young (1979), and Lall and Streeten (1977).

The situation is no different for the other ECOWAS countries. In 1998, as shown in Table 3-1, although many countries managed to grow by 3% of GDP, poverty still remains in most of these countries. For a developed country, a 3% average

growth rate would be seen as normal. But in the LDCs such as Ghana and the other ECOWAS countries, these percentages are insufficient for these countries to "catch up" with the rest of the world within a reasonable timescale. The reason for this may be that the factors that contribute towards growth in the developed countries (e.g. high level production of manufactured goods, perfect and competitive markets, built-up cities and infrastructures, high level technology and communications, efficient and stable macro-economic and financial policies, etc.) are largely lacking in these LDCs.

Table 3-1: Growth Rates For ECOWAS countries: 1998

COUNTRIES	Percentage Growth 1998
Côte d'Ivoire	6.0
Burkina Faso	6 0
Mali	5.4
Guinea	4.9
Senegal	4.8
Ghana	**4.5**
Benin	4.4
Cape Verde	4 .0
Gambia	3.8
Niger	2.7
Nigeria	1.5
Sierra Leone	0.7
Guinea Bissau	0.5
Togo	0.1

SOURCE: African Development Bank: Annual Report 1998

Table 3-1, shows the 1998 growth rates for all the ECOWAS member countries, except Liberia, which had been pre-occupied with internal and regional power

struggles. Although some countries like Côte d'Ivoire and Burkina Faso showed comparatively high growth rates, others have not performed so well. The average growth rate for the region was 3.5%, which was not sufficient enough to make a major impact on the economic development of these countries.

3:2:0 Ghana And Foreign Direct Investment (FDI)

3:2:1 Introduction

As discussed earlier in this chapter, as part of Ghana's ERP and Structural Adjustment Programme (SAP) initiatives launched in the early 1980s, the country adopted an export-led strategy for economic development. The government of Ghana opted to implement this strategy via aggressive investment and export promotion. The liberalised regime of trade and investment replaced IS and investment controls of the pre-ERP and SAP eras during which there was an over-reliance on a few primary commodities (such as cocoa, gold and timber). Consequently, there has been a dramatic shift from dependence on traditional exports to the development and export of non-traditional exports such as cocoa cakes and butter, processed wood products, handicrafts and tie-and dye textiles.

But again, the point has to be reiterated that preconditions for development must first be accomplished to create the inviting investment climate [(Dunning, (1973a), Hood and Young (1979)], which would attract foreign investors to invest and industrialise in these LDCs to increase the manufacture of most of the products for export. Ghana's FDI promotion responsibilities have been carried

out mainly by two independent institutions set up by government: the Ghana Investment Promotions Centre (GIPC) and the Divestiture Implementation Committee (DIC).

As defined by Spar and Kou (1995) in the literature, and also by the IMF, the operation of FDI attraction activities - either through the GIPC or the DIC - has been aimed mainly at capital transfer from non-banking firms to newly established foreign affiliates in Ghana. In most cases of the DIC, foreign investment as explained by Ahiakpor (1990), assumes the form of Joint Ventures with State Owned Enterprises (SOE).

3:2:2 The GIPC And FDI Promotion In Ghana

The ultimate goal of GIPC's promotional programme is to attract FDI as well as encourage investment back home by Ghanaians currently living overseas. As indicated by Spar and Kou (1995) the establishment of the GIPC - mandated under Ghana Government Act 478 (1988) to identify, encourage, monitor and promote value added manufacturing and new potential investment - featured strongly in motivating most of the FDI investors into Ghana. Of course, the seeking of new profits and "determination" by some of the developed countries' MNCs to remain competitive in overseas markets [(Kou and Spar (1995), Hood and Young (1979), Lall and Streeten (1977), Ahiakpor (1990)] has also been motivational in bringing FDI into Ghana. The GIPC's FDI-promoting strategies and activities have been in line with the government's economic policy discussed

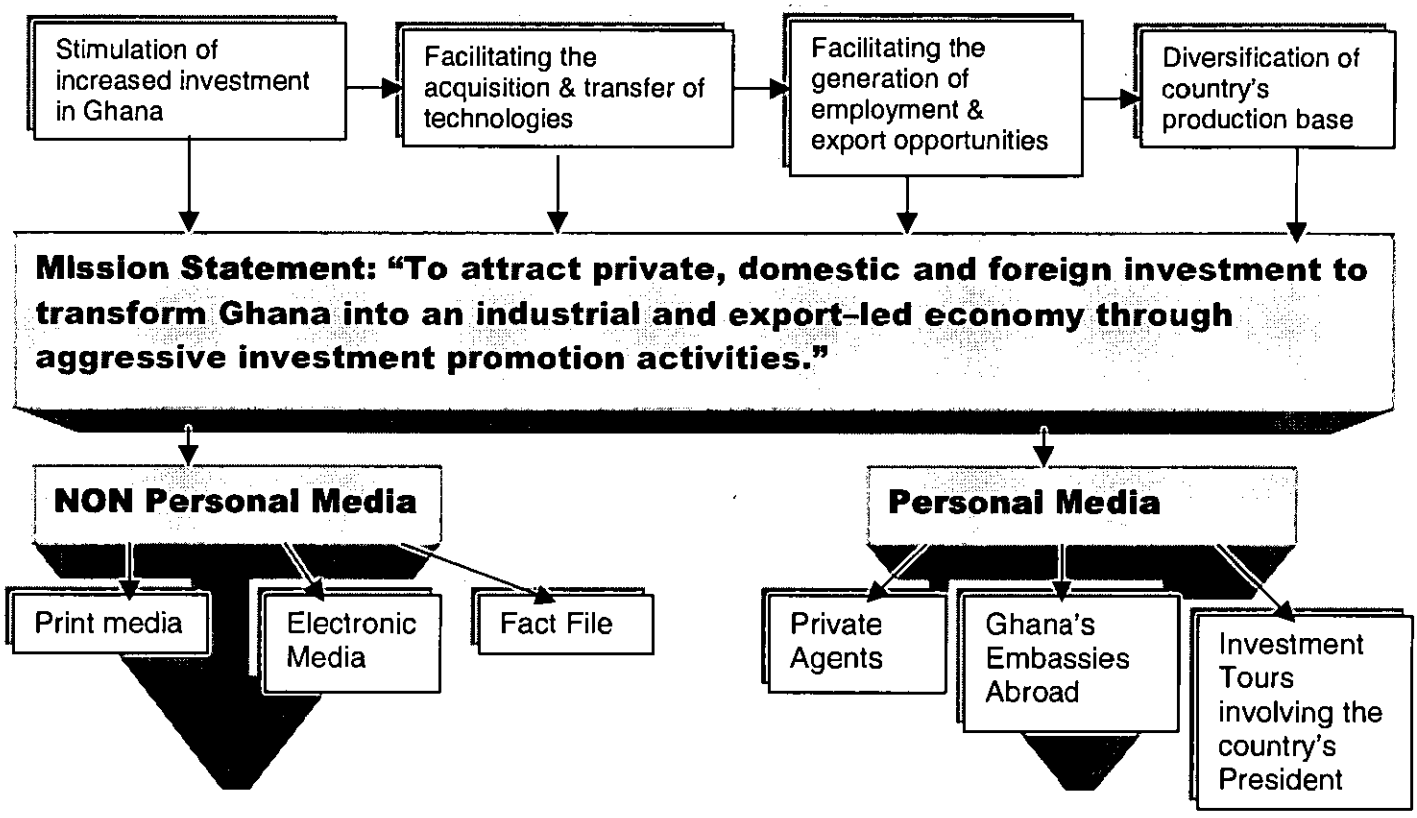
earlier to develop a *"liberalised investment regime sustained by a targeted investment drive."* (GIPC, 1999).

Again, as confirmed by Spar and Kou (1995) some of the effects of the GIPC's FDI promotion activities have been encouraging. Ghana's *Daily Graphic* newspaper reported that, as at May 11, 1999, the GIPC had registered 780 foreign projects worth US$ 1.3 billion. Also the GIPC statistical data released as at December 1999 put the registered foreign projects at 972 (GIPC, 1999). [See also Appendix 1] So far, however, such investments in Ghana have not proved to engender an 'industrial revolution' in the country; they have not even reflected very well in the economic well being of all Ghanaians. Poverty is still prevalent in the country, and this, perhaps, calls for more foreign direct investment into the country to help propel industrialisation in Ghana (See Figure 4-1) in order to increase manufacture, boost export and trade to enhance the economic well being of all its citizens. Development preconditions for this type of investment attraction will have to be prioritised and targeted.

To a very large extent, the GIPC has been the main source – with other relevant government officials and institutions playing complementary roles – in FDI attraction into the country. In specific terms, the GIPC has the objective of attracting foreign and domestic investment to transform Ghana into a broad-based and export-led economy. The GIPC hopes to accomplish the attraction of sufficient FDI projects into Ghana through (a) aggressive promotional efforts at

home and abroad (b) the dissemination of investment information (c) advocating policies to enhance investment climate (d) improving and facilitating communication between the government and private sector. And since credibility and trustworthiness are requisite qualities in attracting investment, the level of investment achieved may be seen as a sign of some credibility.

Figure 3-1 GIPC's Message Code Model



Aggressive promotional efforts at home and abroad (e.g. overseas trade fairs) involve a great deal of communication of information to the relevant target audiences. GIPC's information predominantly relates to the attraction of foreign and domestic investment into the country. In this regard, it is important for GIPC

to ensure it uses the most effective channels of communication and contact in sending out its message. Figure 3-1 shows GIPC's message code model in which its mission statement is clearly stated with investment attraction as the priority.

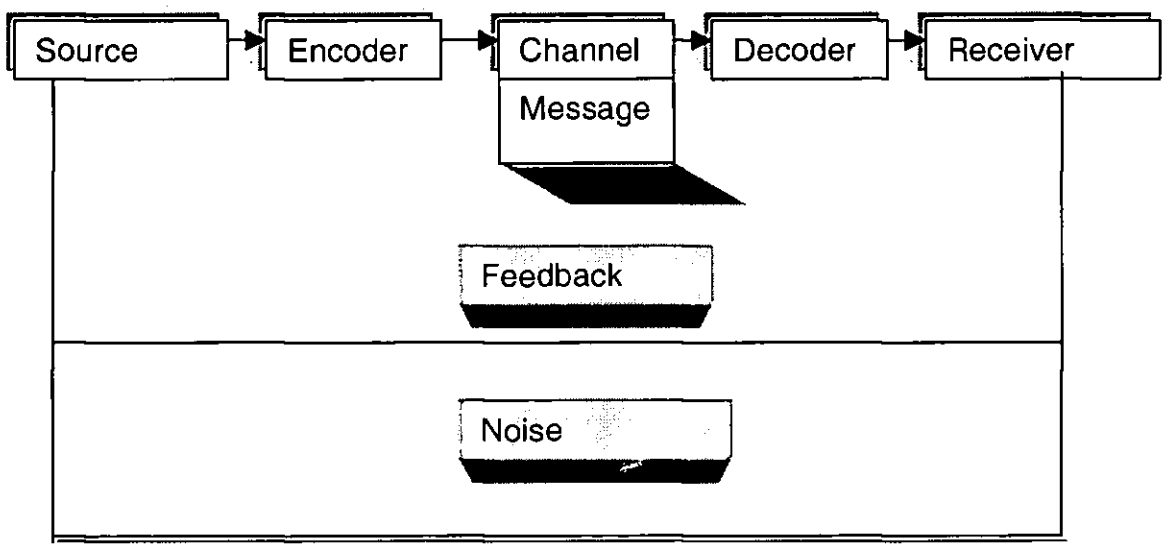
The information released by GIPC's message model as shown in Figure 3-1 above bears the following themes: profile of Ghana, the economy, the investment environment, Ghana's visa regulations, incentives, benefits and guarantees, investment procedures, setting up business in Ghana, financial institutions in Ghana, capital markets, the Ghana arbitration centre, guidelines on acquisition of land and other utilities.

Included in the message are investment incentives, benefits and guarantees that are available in addition to legislation and activities undertaken with the purpose of attracting investors. Again in line with Spar and Kou's (1995) argument, these are motivational aspects of the FDI promoting message designed to target and prompt potential foreign investors into action, i.e. considering Ghana as a prime country for direct investment. But the question can be asked: How consistent are most of GIPC's investment attraction policies and practices? e.g. overseas trade fairs? (See Table 3-10). How consistent have Ghana's presidential overseas investment tours, as indicated in Figure 3-1, been?

As observed by Belch & Belch, (1993), an important aspect of GIPC's message strategy should involve the best way to communicate and overcome any distracting or opposing viewpoint and attitudes that the target audience (potential

investors) might hold. For Ghana, this viewpoint may include the general negative perception of investments in African countries in general due to civil wars, political instability, power struggles, etc. To this extent, FDI inquiries, follow-ups and actual levels of FDI attracted into Ghana must attest to the fact that the message variable is vigorous and has, to some extent, been persuasive. GIPC employs Belch & Belch's (1993) basic model of communication to enhance persuasion to attract FDI and that has evolved the elements of *sender, encoding, message, channel, decoding, receiver, response feedback* and *noise*. (See Figure 3-2). The result as mentioned earlier in this chapter has been encouraging, but not excellent.

Figure 3-2: Belch & Belch's Basic Model Of Communications

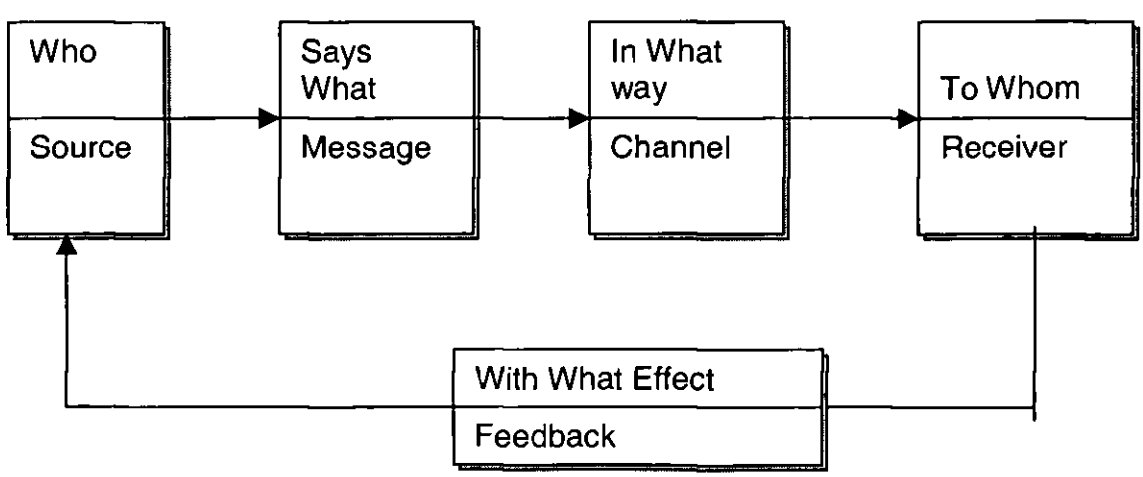


Finally, Ghana's FDI promotion messages through the GIPC have a target audience, which include firms, individuals and trade associations in selected

countries in North America, Europe, Asia and Africa. Added to these trade organisations, are financial institutions, businesses, local governments, etc. For example, the GIPC is co-operating with *Tomorrow's World* - a trade and investment exhibition – which brings together leading Ghanaian and multi-national companies to demonstrate that investment in technology (Rostow, 1971) and management are key ingredients to *"take off"* in the production of processed and manufactured goods for export, which has the ability to enhance trade and economic development. But again, are the messages clear and concise to the recipients (foreign investors)?

The level of response to GIPC's FDI promoting activities in Ghana is measured through a monitoring and evaluation process using Laswell's 5-Ws model of communication. (See Figure 3-3 below). This is usually published in the form of quarterly statistics on registered projects, the number of enquiries received and the commitment made to projects by foreign investors according to agreed schedules with the GIPC.

Figure 3-3 Laswell's 5-Ws Model Of Communication



Target audience's response is critical to the successful promotion and attraction of FDI into Ghana. Consequently, GIPC's communication response process is identified as the Laswell's 5-Ws model before the messages are sent out. As Figure 3-3 explains, GIPC makes sure it understands the response process in order to move towards a specific action or behaviour pattern in its investment attraction strategy.

The effects (Spar and Kou (1995) of the FDI attraction promotional efforts by other public and private sector institutions cannot, however, be factored out of these statistics. The totality of Ghana's FDI promotion campaign is the net result of the combined activities and communications strategies of public and private sector institutions like the country's Ministries of Finance, Trade and Industry, Mines and Natural resources, Transport and Communications and others such as the Ghana Free Zones Board, the Ghana Export Promotions Council and other public and private organisations whose efforts are hugely complementary.

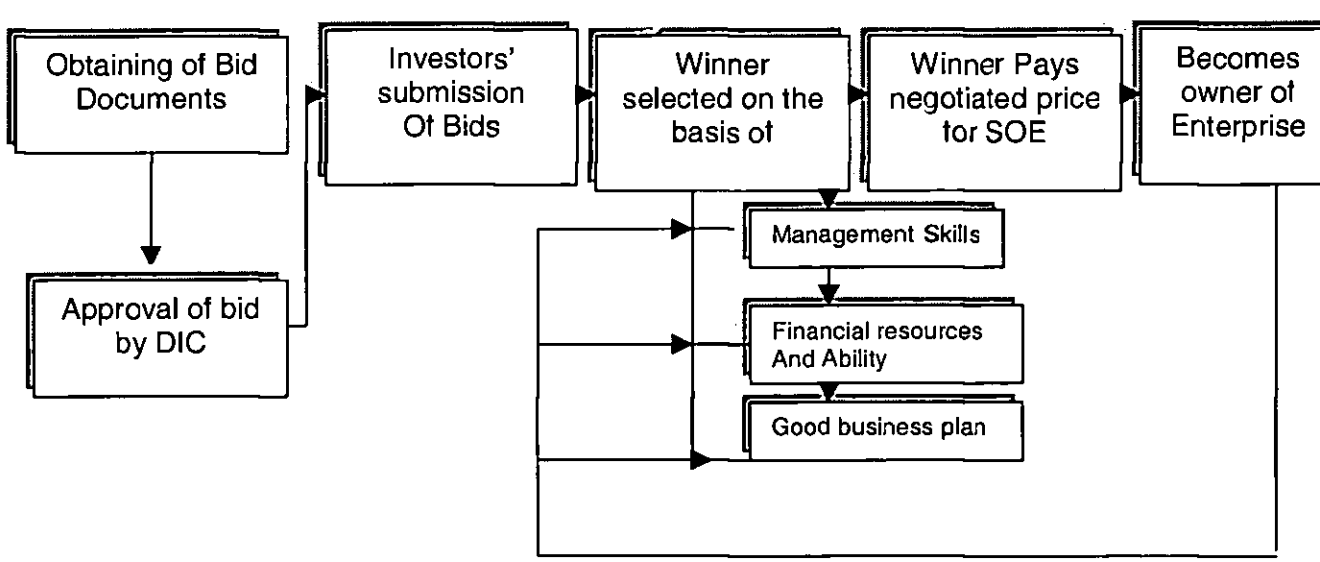
3:2:3 The Divestiture Implementation Committee (DIC) And FDI In Ghana

Ghana's other strategy of promoting FDI in the country – albeit on a comparatively smaller scale than the GIPC – is through the country's divestiture programmes. Divestiture in Ghana is the transfer of ownership of State Owned Enterprises (SOEs) to private investors, both local and foreign. It is an ambitious attempt to unlock the trade and economic potential of Ghana by permitting resources of people, money (including FDI) and technology to be put to their best

use, and by ensuring efficiency throughout its industries. Again, as part of the country's ERP, in 1988 the DIC programme was launched with its details set out in the Divestiture of State Interests (Implementation) Law 1993 (PNDC Law 326).

At the onset of Ghana's FDI attraction divestiture programme, over 300 SOEs were operating in all sectors of the economy. Whilst a large number of them were in manufacturing and agriculture (including cocoa and coffee plantations) others were in the mining, hotel and timber sectors. The divestiture implementation programme followed the model illustrated in Figure 3-4. The process begins with bidding by potential investors. This is approved by the DIC. The winner is selected mainly under the criteria of management skills, financial resources, technology and the ability to produce a convincing business plan. Ownership – or part ownership – of the organisation or company transfers to the winners of the bid who carry on with their businesses. (See Figure 3-4).

Figure 3-4 Model Of Divestiture Of SOEs In Ghana



Ghana's FDI promotion divestiture programme got underway in earnest in 1990/91. As at 31 December 1998, the divestiture of 212 SOEs (or part of SOEs) had been authorised by the President of Ghana's office. The breakdown on an annual basis highlighting the mode of divestiture in Ghana is shown in Table 3-2.

Table 3-2 Results Of Ghana's Divestiture Programme 1991 - 1998

Mode	1991	1992	1993	1994	1995	1996	1997	1998	Total
Sale of Assets	16	4	3	30	19	18	15	7	112
Sale of Shares	11	5	2	2	6	1	2	2	31
Joint Venture	6	3	1	4	0	4	1	2	21
Lease	3	1	0	1	0	0	1	0	6
Liquidation	24	2	5	5	6	0	0	0	42
TOTAL	**60**	**15**	**11**	**42**	**31**	**23**	**19**	**11**	**212**

SOURCE: Ghana Divestiture Programme (Fact Sheets)

The total FDI element of divested SOEs as at December 1999 included 32 foreign investors. Liquidation, as shown in Table 3-2, in the first instance, is a dis-investment. However, most of these liquidated SOEs were acquired by other investing firms, which in most cases provided additional FDI in addition to the acquisition of the businesses. But as argued by Biersteker (1978) Moran (1985), Cassen and Pearces (1987) and Korten (1995) there could be controversy over the role and input of FDI which often has its basic fundamental disagreement

about nature, style and character of desirable trade, economic and development process. Table 3-3 below shows some of the FDI attracted into Ghana as at December 1999 since the country's ERP in 1983. (also See Appendix 1).

Table 3-3 Selected Major Foreign Direct Investments In Ghana As At December 1999

Company Name	Investment Type	Main Activities	Ownership %	FDI US $
GS Telecom (Ghana) Ltd.	FDI	Installation, maintenance and servicing of private satellite networks and other communication services	100 British Owned	US$ 467,800
Shewa Construction Machinery Group (Ghana) Ltd.	FDI	Leasing of heavy-duty machinery and equipment	100 Chinese Owned	US$ 303,000
Chinese Long Da Company (Ghana) Ltd.	FDI	Construction of roads, bridges and provision of civil engineering services	100 Chinese Owned	US$ 548,000
Hyspec (Ghana) Ltd	FDI	Assembling of hydraulic hoses for mining companies	95-British 5-Ghanaian Owned	US$ 128,213
Tractor and Equipment (Ghana) Ltd.	FDI	Distribution and servicing of earth moving machinery and equipment: Bulldozers, graders, tractors, etc.	100 Egyptian Owned	US$ 13 Million
Wonder Foods (Ghana) Ltd.	FDI	Manufacture of Food Products-Powdered Milk	100 Panamanian Owned	US$ 500,589
Golden Biscuits (Ghana) Ltd.	FDI	Production of Assorted Biscuits	100 British Owned	US$ 1.98 Million
Paper Conversion Company	Joint Venture	Production of corrugated packaging boxes and paper products	64-Swedish 36-Ghanaian	US$ 2 Million
Ghana Telecom	Joint Venture	Provision of direct and payphone telephone lines,	38-Malaysian 62-Ghanaian	US$ 38 Million
The Coca –Cola Bottling Company of (Ghana) Ltd.	Company Acquisition	Manufacture and Sale of internationally recognised products under the brand name "The Coca-Cola Company"	100 American Owned	US$ 11 Million
Ghana Oil Palm Development Company Ltd	Joint Venture	Out-grower palm oil plantation and Operation of Palm Oil Mills	60-Siat (Gh.) Ltd 20-Ghana Govt. 15-S. Growers 5 GOPDC Staff	US$ 37.7 Million

SOURCE: Ghana Investment Promotion Centre/Divestiture Implementation Committee, Accra (Ghana)

In Table 3-3, it is clear that there are marked variations in the level of FDI attracted into Ghana. For example whilst the Ghana Palm Oil Development Ltd

and Tractor and Equipment (Ghana) Ltd invested US$ 37.7 million and US$ 13 million respectively, GS Telecom (Ghana) Ltd. and Chinese Long Da Company (Ghana) Ltd invested in comparatively smaller projects totalling US$ 467,800 and US$ 548,000 respectively. It is in Ghana's interest to attract high levels of FDI into the country for development. The long-term sustainability and viability of these investments – especially with respect to the transformation of the Ghanaian economy into one that is broad-based and export-led (Kirzner (1973) and Adam Smith (1976) – need to be vigorously pursued. The opinions of FDI investors would have to be sought in order to understand the extent to which the experiences of investors have matched their expectations on the basis of the "message" programmes of the GIPC and the DIC respectively.

Also, the argument can be made that Ghana's political and social stability, educational and literacy levels, fair and firm judiciary system, sound macro-economic policies, for example, which constitute a significant part of all the important preconditions for development do not necessarily require FDI for their accomplishment; they are development preconditions that Ghana has been endeavouring recently to put in place. There is the need, however, for the country's relevant investment attraction institutions to heavily advertise their endeavours towards the accomplishment of these basic development preconditions by the country to the investing outside world.

3:3:0 Ghana's Trade

3:3:1 Introduction

Ghana and, indeed, most other ECOWAS countries rely very much on trade to shape and develop their 'struggling' economies. As argued by Meier (1976) and discussed in the literature in the previous chapter, foreign trade is particularly important in countries, like Ghana, that lack engineering industry and are obliged to import all their machinery. It is foreign trade that opens up large opportunities of immediate gain. Most of Ghana's macro-economic policies are structured around the country's ability to trade extensively, both regionally and overseas.

Whilst the general equilibrium theory of international trade suggests under the Heckscher-Ohlin (1933) theory that *".... countries will have comparative advantage in producing the goods using their particular factor reliability intensively, and each country will export its abundant-factor goods in return for inputs of the goods which use factors relatively intensively "* (leading to gains from trade) this may not necessarily be the situation in Ghana and the other ECOWAS countries.

First, it can be argued that Ghana – a developing country within ECOWAS – does not have perfect competitive markets (Todaro, 2000). Second, as Todaro (2000) pointed out, within Ghana – and all of the ECOWAS countries – factors of production are really scarce and indigenous manufactured products are almost non-existent. There is also an international trade imbalance. The demand for

manufactured goods in Ghana outweighs supply; and where demand exceeds supply, prices rise and increased importation of these manufactured goods could adversely affect Ghana's balance of payments. The terms of trade are against Ghana, in that agricultural products are of low value on the international markets (Brown, 1993). This also reiterates Hazard and Yoffie's (1989) argument that *"...some developing countries were still observed to export primary and natural resource products that reflected the relative abundance of factors, while the pattern in manufactures and services in these developing countries was less predictable."*

Ghana will need to develop her economy to the level of "well behaved" production and manufacturing levels and operate "perfectly competitive markets" in order to benefit from the factor endowment theory as argued by Todaro (2000). It is in the same vein that Porter (1990) departed from the standard neo-classical factor endowment theory to posit a qualitative difference between traditional basic factors and new factors of production as discussed in the literature in chapter 2.

3:3:2: Ghana's Gains From Trade

Ghana's gains from trade whilst currently considered as moderate, still need to be improved. With most of the 972 foreign investing companies registering projects (GIPC, 1999), the US$ 450 million trade revenue the country earned in

1998 could still be improved considerably if better trade and investment reforms continue and are further consolidated.

Most of Ghana's major trading revenue operating companies are foreign owned mines and timber concessions for which very little rents are paid for the right to use land. The local workers are enlisted on very low wages, which have minimal effect on the rest of the economy of the country, even though the foreign mining and timber plantation companies generate significant export revenues. However, there could be danger with repatriation of profits. The owners of the businesses will always want to repatriate as much profit as they can make. But as Hood and Young (1979), Streeten and Lall (1973) and Bornschier (1980) warned, when remittance (foreign profits by FDI) outstrips income, there are balance of payments difficulties for host countries.

Ghana's earnings from gold exports amounted to US$ 687.8 million in 1998 and timber exports fetched US$ 170.2 million (Peprah, 1998). But as GDP and GNP for the country, for example, become important, in so far as the export sector of Ghana's economy is foreign owned and operated (e.g. mines and timber concessions) GDP is often much more highlighted than GNP both in significance and quantity. Consequently, few of the benefits of this trade actually accrue to Ghana, although foreign export earnings may exceed the total value of domestically accrued income. For example, in 1998, Ghana's trade balance was a deficit of US$ 383.8, which represented 5.2% of GDP (Perprah, 1998). If

Ghana's indigenous producers seek to maximise profits (more indigenous industries), factor owners maximise income and consumers maximise utility, then perfectly competitive markets, as discussed earlier in the chapter (if they exist), could lead to community-welfare-maximising outcome, thereby proving gains from trade accruing to the country.

3:3:3 Technology Based Trade In Ghana

Ghana's operation of technology-based trade dated back to the 1950s when the country's first president, Dr Kwame Nkrumah, solicited the help of the giant American engineering company, ***Kaiser Engineers***, into the country.

Just as the theory relating to the technology based trade confirms innovative activity fuelling a substantial part of international trade – through the ability of producing or manufacturing industries to develop new machinery or production methods – so has been the story with Ghana and Kaiser Engineers of the United States of America.

The Hydro-Electric Dam constructed at Akosombo in Ghana by Kaiser Engineers supplies electric power and water supplies to most industries in Ghana. The country also earns substantial foreign exchange through the export of excess electric power and water to neighbouring Togo, Benin and Nigeria. There has been criticism that there are no elements of manufacturing in these endeavours.

However, it can be argued that the hydroelectric power generated by this technology transfer has been the backbone of all industries in the country.

Ghana's Volta Aluminium Company Ltd. (VALCO) – a product company of Kaiser Engineers – operates aluminium smelting for the production and export of aluminium ingots overseas. This is fine; but if high technologically-based companies such as Toyota, Nissan, Nestle, JVC, De-Beers, etc. establish overseas production plants in Ghana and the other ECOWAS countries in forms of FDI for example, then perhaps the realities of the practicalities of the technology-based international trade theory could be realisable, and could lead to better balance of trade situations for most of these countries. Within this context, these countries could produce and export manufactured goods such as computers, television sets, hi-fi systems and even cars to enhance economic growth and development as argued by Clower *et al* (1966) and Ahiakpor (1990).

In 1997, the Dutch electrical group ***Phillips*** made Ghana its West African regional headquarters for the assembly and distribution of its electrical appliances. Coca Cola, USA, has established two huge bottling plants in Ghana; one in the South of the country to supply southern West African countries, and the other in the North of the country to supply the northern West African countries.

UNCTAD WIR (1999), however, cautions that developing countries like Ghana cannot expect to transform their technological bases by simply opening doors to these investing companies. Vernon (1996) also confirmed *"...trade patterns will depend upon countries' relative skills and technological endowment."*

However, countries like Ghana and the other ECOWAS countries could still derive advantages from technology transfers from alternatives such as:

- exporting products from Ghana's home base e.g. aluminium ingots from VALCO, aluminium coils and household utensils from Alluworks Ghana Ltd, etc.
- sale of Ghana's acquired manufacturing "know-how" for production to other ECOWAS and African countries
- investing in production facilities abroad

The first point confirms the increase of Ghana's exports. To an extent, this has helped to improve the country's balance of payments situation – although more FDI is required to increase manufacture to boost trade and close the trade deficit gap - and has since the ERP in 1983 been Ghana's focal point.

The following section will examine Ghana's export orientation within the context of the country's industrial development.

3:4:0 Industrial Development In Ghana

3:4:1 Trade Policies And Export Trade Development in Ghana

3:4:1:1 Import Substitution (IS) Policies

Exports of various agricultural products have featured very prominently in Ghana before and after independence. From the country's attainment of independence in 1957 to 1984, Ghana's exports were conducted under a centralised trading regime, which could rightly be referred to as IS policies.

During the mid-1970s and the early 1980s, for example, trade barriers became so rigid in Ghana that few consumer goods entered the country by means of imports. Some imports such as medication, canned foods, drinks and toilet soap were banned completely. Rapid industrialisation projects started in the mid-1960s by the Nkrumah regime – mainly in the manufacture of some consumer goods – were progressed e.g. sugar factory at Asutsuare, matches factory at Kade, steel works at Tema and textiles production plants at Tema and Akosombo.

However, all these industries suffered the bulk of slowdown in industrial growth a little later. By the mid-1970s, mainly due to IS policies, which witnessed the introduction of very high tariffs and taxes, consumer goods became seriously short in supply throughout the country. Most of the industries started by the Nkrumah regime had gone defunct. This gave rise to massive smuggling of consumer goods across the borders of neighbouring Togo and Côte d'Ivoire into the country.

Industrial inputs were also in short supply and had to be imported from abroad. In fact, there was a general breakdown of the industrial manufacturing sector within the country. Ghana during these years experienced:

(i) higher prices for imports supplied by protected industries

(ii) distorted domestic prices such as the relative price of the non traded or export good well below its free trade price

(iii) an overvalued domestic currency due to artificially reduced import levels making it difficult for exports to be price competitive

(iv) very high tariffs for consumer goods and services entering the country

3:4:1:2 The Uruguay Round

Ghana participated actively in the Uruguay Round (UR) of trade negotiations which were concluded in Geneva in December 1993. The country thus accepted all the commitments that the Final Act of the UR put forward and what it entailed. The Ghanaian Parliament then ratified the Act in December 1994 making Ghana one of the original members of the World Trade Organisation (WTO).

The UR was envisaged to lead to an expansion in world trade, and countries whose domestic policies encourage increased participation in world trade would reap benefits. Improved market access conditions would become available to these countries which have the will, ability and capacity to respond to the challenge of the new global trading environment.

It was envisaged that under UR, member countries like Ghana and many other developing countries would be facing low tariffs and in many cases, duty-free access. In addition, coverage of non-tariff barriers would be reduced from 16% to 3%. This new situation provided opportunities from which member countries like Ghana may derive benefits.

3:4:1:3 Export Orientation

Ghana has since 1983, and as part of the Economic Recovery Programme, (ERP) launched the same year, opted for a more liberal outward-oriented trading system (policy) and the enticement of Foreign Direct Investment (FDI). Ghana's outward-looking trade and development policies have since not only encouraged free-trade, but also free movement of capital, workers, enterprises and skilled labour confirming the theories of Lewis (1954), Streeten (1973) and Keesing (1979) as discussed in the literature in chapter 2.

Ghana has since 1983 successfully promoted a liberal trade and payment regime with support from the World Bank, IMF and other donors. In 1988 the country introduced the foreign exchange bureau *(forex)* to deal openly in foreign currencies. This was quite successful in that it helped to erode currency "black marketing" which hitherto exerted heavy pressure on the country's exchange rate mechanism at the Bank of Ghana. In 1989, the IS associated import licence system was completely abolished. In 1990, with the establishment of an

interbank market for foreign exchange, the transition to a flexible exchange rate system, which had begun with the weekly *forex* auction in 1986, was completed.

3:4:1:4 Tariffs And Reliefs

With the implementation of export oriented trade policies, Ghana has since 1988 adopted a liberal tariff policy which has led to a simplification of the tariff structure and a reduction in tariff levels. In contrast to the very high tariffs before the ERP in 1983, only three categories of tariffs have been applied since 1994. i.e. 0% for essential goods, 10% for raw materials and capital equipment and 25% applicable to all other goods.

The following duty and tax reliefs have also been made available since 1994:

(i) goods imported for temporary use and re-exported within a period not exceeding three months attract no duty. (Bond equivalent of the duty or cash deposit is, however, secured by Customs & Excise Preventive Services (CEPS) until the goods are re-exported)

(ii) duty free access is guaranteed for capital equipment imported under agreement with the Ghana Investment Promotion Center (GIPC)

(iii) duty-free entry for raw materials imported for the manufacture of pharmaceutical products, agricultural implements and machinery, plastics, disinfectants, timber and timber products, etc.

(iv) goods in customs bonded warehouses are exempted from payment of duty until they are delivered for the domestic market

On exports, the following simplified policy changes were effected:

(i) new export forms were introduced for non-traditional exports thus replacing the very cumbersome "Single Administrative Procedures"

(ii) non-traditional exporters now have access to their foreign exchange earnings thus effectively removing the requirement to surrender part of their earnings to the bank of Ghana in exchange for the local currency, the *Cedi*

(iii) price controls and guidelines for exporters have been abolished

(iv) the export and import act (Act 503) was enacted in 1995 to give the right to export any product for commercial purposes to all that are willing and able

It is clear from the above that Ghana's trade and development reforms have had a markedly outward orientation. Liberalisation has resulted in an increase in trade but it has to be emphasised, however, that long-term sustenance depends on export expansion including diversification of the non-traditional export sector possibly with the help of FDI.

Table 3-4 Ghana's Merchandise Trade: 1986, 1991 - 1998

YEAR	1986	1991	1992	1993	1994	1995	1996	1997	1998
Merchandise Exports(US$M) FOB	827	998	986	1064	1237	1431	1570	1490	1810
Merchandise Imports (US$M) CIF	1025	1319	1457	1728	1580	1688	1937	2128	2346
Total Trade	**1852**	**2317**	**2443**	**2892**	**2817**	**3119**	**3507**	**3618**	**4156**

SOURCE: State of Ghanaian Economy Report: 1991 – 1998, ISSER, University of Ghana

Table 3-4 clearly shows that there has been a steady increase in the level of merchandise trade, year on year. The Table also shows that during the initial stages of the reform process the increase was more modest. Between 1986 and 1991 total merchandise trade increased from US$ 1,852 million to US$ 2,317 million. i.e. by 25%. However, from 1991 to 1998, merchandise trade increased over 75% to US$ 4,156 million.

The bad news as shown in Table 3-4, however, is that the trade deficit has grown from US$ 198 million to US$536 million. Also the deficit has grown from 24% of exports to 29% and 62% in 1992 and 1993 respectively. In 1997, the deficit grew by 43%. Thus while the increase in merchandise trade may be the result of the response to the unilateral reforms instituted since 1983 which deepened in later years with the liberalisation of Ghana's trade with the outside world, the level of imports did not reduce significantly.

Ghana, therefore, needs to significantly improve its manufacturing base to reduce imports possibly by attracting and using more FDI. Also just as Unilateral Liberalisation has led to trade expansion in Ghana, it can be expected that Multilateral Liberalisation attracts more FDI and results in an expansion in world trade from which all participants could derive benefits. This, however, depends on the relative capacities available to take advantage of the opportunities offered by the new Multilateral Trading System (MTS).

3:4:1:5 Promoting Exports

The export policy focus of the Ghana government has been two-pronged: first the rehabilitation and promotion of the country's traditional exports of cocoa, minerals (especially gold which has since overtaken cocoa as the main foreign exchange earner for the country) and forestry products. Second, the promotion of non-traditional exports through both product and market diversification strategies [(Kirzner, (1973), Adam Smith (1976)]. Trade in tourism, which has been vigorously promoted in Ghana, has also since overtaken timber as the country's third largest foreign exchange earner.

3:4:1:6 Cocoa

Ghana government's policy has been to maintain Ghana's position as the foremost supplier of premium-grade-quality cocoa beans while increasing output and adding value through increased processing. To this end, the government has initiated a number of policy measures, which include:

(i) periodic increases in the producer price of cocoa

(ii) privatisation of the acquisition and distribution of inputs to farmers

(iii) opening up of the internal marketing of cocoa - which was the exclusive preserve of the Ghana Cocoa Board's (COCOBOD) Produce Buying Agency prerogative - to competing privately with owned licensed buying agents

(iv) intensification of research into swollen shoot, black pod and other diseases which affect cocoa in order to exercise effective disease control

(v) the on-going merger of cocoa extension service division and the Ghana Ministry of Food and Agriculture's extension services department to improve extenuation service delivery.

However, as is evident in Table 3-5, both the volume and value of Ghana's cocoa exports for the period shown are not consistent. There are fluctuations, which might have been the results of fluctuating fortunes of cocoa prices and other primary commodities in the world market in recent times (Brown, 1993). This reiterates Kirzner (1973) and Adam Smith's (1976) call for diversification and value addition of primary products in developing countries.

Table 3-5 Ghana's Cocoa Exports: 1986, 1991 – 1997

Item	1986	1991	1992	1993	1994	1995	1996	1997
Cocoa Beans								
Volume (MT)	195,224	243,000	223,774	263,665	238,269	237,262	349,067	261,251
Volume ($M)	469.8	315.6	276.81	250.5	295.0	361.1	478.8	384.8
Cocoa Products								
Volume (MT)	15,543	21,745	19,328	22,829	14,050	13,864	45,382	53,265
Volume ($M)	33.3	25.7	33.9	35.4	25.2	28.4	72.3	85.2
Total ($M)	503.3	349.0	302.5	285.9	320.2	389.5	552.1	470.0

SOURCE: Bank of Ghana. In 1998, cocoa export receipts have been provisionally estimated to be $ 628.6 million

3:4:1:7 Precious Metals

Ghana exports four main minerals, namely gold, diamonds, manganese and bauxite. Gold is by far the dominant sub-sector and the leading export earner for Ghana. The increase in mineral export volume and value has been tremendous and earnings have quintupled since 1986. In the case of gold, the increase in both volume and value has been the result of the opening up of new mines and

the re-opening of old mines which had been closed down and abandoned for years. These new investments have resulted from investor judgement on Ghana's trade and investment reforms especially the country's international trade policies. Exchange rate realism (reform) has also been a key factor in facilitating foreign technology transfers.

As shown in Table 3-6, Ghana's diamond sub-sector peaked in 1994 but earnings have more than doubled on the back of higher prices as volumes have declined. Bauxite volumes also doubled while manganese had its best performance over the last decade in 1997. The table also shows that gold, which has overtaken cocoa as Ghana's highest foreign exchange earner, increased steadily over the period. This is due to increased foreign investment in the mining of Gold in Ghana by companies like Ashanti Goldfields (floated on the London and New York Stock Exchanges) and Terberabie among others.

However, these increases do not reflect positively in the well being or the standard of living of the average Ghanaian. There is still poverty in the country. One possible reason as argued by Brown (1993), is that these products in their raw-material forms remain vulnerable to world price fluctuations. Also, as argued by Kirzner (1973) and Adam Smith (1976), if these products are transformed from raw materials into secondary products, e.g. gold and diamonds into jewellery, bauxite into household aluminium products, etc. these value additions could make Ghana earn more foreign exchange with which it could increase its

income distribution and the standard of living of its people as observed by MacDougall (1960) and Ahiakpor (1990).

Table 3-6 Ghana's Mineral Exports: 1986,1991 – 1997

Item	1986	1991	1992	1993	1994	1995	1996	1997
Gold								
Volume (Ounces)	292,211	834,986	335,377	1,210,474	1,435,475	1,689,470	1,584,380	1,747,018
Value ($M)	106.40	304.4	433.9	433.9	548.7	647.3	612.4	579.2
Diamonds								
Volume (Carat)	564,950	663,393	690,409	552,854	717,419	645,100	634,192	562,651
Value ($M)	4.81	18.6	19.3	17.3	20.4	14.8	13.4	11.4
Bauxite								
Volume(MT)	226,461	320,313	399,155	364,642	451,802	526,335	383,612	536,732
Value ($M)	5.0	9.5	9.5	8.4	9.6	10.4	8.5	10.79
Manganese								
Volume(MT)	245,794	281,195	285,055	309,122	245,256	193,096	229,227	355,232
Value ($M)	8.2	20.2	16.5	13.9	9.62	6.4	7.1	11.6
Total ($M)	124.4	351.9	388.6	473.5	588.2	678.8	641.3	612.9

SOURCE: Bank of Ghana. In 1998, earnings from gold export amounted to $ 687.8 million (Budget Statement, 1999)

3:4:1:8 Timber Exports

Timber exports have also generally increased in terms of volume peaking at 780,000 cubic meters in 1994. But the many rules and regulations, levies and taxes operational within the industry made the industry highly volatile and clear signals for export drives have been lacking. Thus, there are year-to-year fluctuations in the export orientation fortunes of the Ghana timber industry. (See Table 3 - 7). Ghana's timber export is discussed in more detail in chapter 6.

Table 3-7 Ghana's Timber Exports: 1986, 1991-1997

Item	1986	1991	1992	1993	1994	1995	1996	1997
Timber								
Volume(CM)	291,382	393,598	406,662	727,813	780,000	590,000	364,771	442,017
Value ($M)	44.1	124.1	113.9	147.4	165.4	190.6	146.8	171.97

SOURCE: Bank of Ghana

Ghana's 1948 Forests and Wildlife policies were reviewed in 1994 in which issues of sustained forest management and the flow of benefits to all segments of the community were highlighted. In 1997, in order to attract FDI into the country's forest industry, a Forest Development Plan of Ghana for the period 1997-2020 was launched to address ecological and sustainability policy issues such as:

(i) sustained forest management - to prevent forest liquidation

(ii) efficient utilisation of forest resources

(iii) reduced impact on the environment.

3:4:1:9 Non-Traditional Exports

Ghana's export dependency on primary products makes the economy vulnerable to fluctuations in prices (Huynen (1973), Brown (1993). Thus non-traditional exports – especially processed and semi-processed products such as handicrafts, furniture and furniture parts, textiles, cocoa cakes, cocoa butter, etc. and eventually manufactured goods – which have more stable prices on the world market are aggressively encouraged. In other words, there is a great need for product diversification in the country's products as suggested in the literature by Kirzner (1973) and Adam Smith (1976).

The growth of Ghana's non-traditional export sector has been good. Traditional exports have grown steadily, and the growth in the processed and semi-processed sub-sector has also been encouraging. A comparison of export performance of Ghana's non-traditional products for the period from January to June 1998 and 1999 showing number of products, number of exporters, quality, value and percentage contribution of each product to the country's exports, is attached in Appendix 10. Its earnings of US$ 266.9 million in 1997 outstripped timber export earnings by 55% (Osei, 1999).

But again it is important that the benefits of increased exports in Ghana are reflected positively in the standard of living of its people. So far this is not the case; and perhaps more increased FDI targeted at increased production of consumer-manufactured goods such as refrigerators, television sets, and even automobiles for increased export and trade to enhance economic growth and development needs to be considered.

From the inception of Ghana's trade liberalisation and economic reforms in 1983, the country put in place schemes to support the non-traditional export sector. These schemes included the use of customs duty reductions and rebated income tax for exporters as well as export bonuses. Complete foreign exchange retention for foreign investors has been in operation since 1994. As observed by Lim (1983) and Balasubramanyam (1984), fiscal incentives are not the best FDI attraction strategies; but in Ghana the practice is a norm and has succeeded in

attracting some FDI into the country such as the mining companies described earlier in the chapter.

Under the WTO rules, because Ghana's per capita income is less than $1,000, (Osei, 1999), it is permitted that the country applies the necessary export promotion measures to support and encourage its non-traditional export sector.

These measures and the simplification of export procedures have combined, in the light of general economic reforms, to ensure a healthy Ghanaian non-traditional sector export performance as shown in Table 3-8.

Table 3-8 Ghana's Non-Traditional Exports (US$ M) 1986 - 1997

ITEM	1986	1991	1992	1993	1994	1995	1996	1997
1.Agric. Products (e.g. Cocoa Cakes, Butter, Chocolates	17.80	33.00	22.10	26.10	39.20	27.40	50.30	57.40
2.Processed/Semi-Processed Products (e.g. Wood and Aluminium products)	5.90	28.60	44.90	43.00	77.80	130.20	223.00	266.90
3.Handicrafts: (e.g. Carvings, Weavings, Tie & Dye clothing)	0.06	0.88	1.47	2.58	2.33	2.07	2.92	4.72
TOTAL	**23.76**	**62.56**	**68.47**	**71.68**	**119.33**	**159.67**	**276.22**	**369.02**

SOURCE: Bank of Ghana

Ghana's non-traditional exports are discussed in more detail in chapter 6.

3:4:1:10 Tourism

As stated earlier on in the chapter, tourism in Ghana has developed significantly. It is now the country's third main foreign exchange earner behind gold, and

cocoa (See Table 3-9). Pre-1983 figures were unavailable, as there were no records.

As shown in Table 3-9, there has been a dramatic transformation of the tourism industry in Ghana with substantial increases in tourist arrivals and tourist earnings. Importantly for Ghana's investment attraction and trade promotion, tourism in the country is responsive to perceptions about political and economic stability. Government policies for the sector have been designed to foster an image of stability and safety. The building of tourist infrastructure is critical and a number of first-class star-rated hotels of varying sizes have been built since the inception of trade, investment and economic reforms to cater for business, holiday and cultural tourists.

However, as will be discussed in the concluding chapter of the thesis, tourism in Ghana has to do more; for example more four and five star hotels, cleaner beaches, higher levels of security, etc. will have to be accomplished if it is to attract more tourists, particularly from Europe and North America, into the country.

Table 3-9 Earnings From Ghana's Tourism Trade: 1986, 1991-1998

Year	1986	1991	1992	1993	1994	1995	1996	1997	1998
Earnings US$ Millions	26.60	118.6	168	205.6	240.5	237	248	297	305.7

SOURCE: Ghana Ministry of Tourism.

3:5:0 Ghana's Exchange Rate Management

As discussed in chapter 2, if the official price of foreign exchange is established at a level that, in the absence of governmental restrictions or controls would

result in excess local demand over the available supply of foreign exchange, the domestic currency is said to be overvalued. Also, real exchange rate appreciation in the short run could hinder exports and may lead to a new wave of protectionism as cheaper imports flood in to compete with domestic producers.

In 1998, Ghana's currency, the *Cedi,* appreciated in real terms by over 15% continuing the trend, which started in 1995. In the first half of the year, the *Cedi* was more or less stable. The *Cedi,* during this period, showed signs of weakening; however, as suggested by Krueger (1974), The Bank of Ghana – Ghana's Central Bank – intervened through the sale of foreign exchange to support the weakening *Cedi.*

In addition, the Bank of Ghana administratively doubled the reserve cash requirement of forex bureax from $5,000 to $ 10,000. The bank also moved to suppress the "Dollarisation" of the economy by publishing sections of the Exchange Control Act 1961, which made it illegal for firms and individuals to denominate their charges and rents in any currency other than the *Cedi.*

These moves by the Bank of Ghana resulted in the demand for foreign exchange reducing drastically and may have induced the low interest rates that followed soon after. Ghana's Centre For Policy Analysis (CEPA) argues - and quite correctly too - that, *"...unless one can achieve a rapid improvement in the fundamentals of the economy, the syndrome of falling interest rates and*

appreciating real exchange rate is not sustainable. This view complements Dunning (1973a) and Hood and Young's (1979) argument on exchange rate regulation, control and stability discussed in the literature in chapter 2.

Ghana had to avoid adverse exchange rate policies, which resulted in a running down of reserves, and were doubtful and dangerous, since they affected Ghana's ability to remain competitive. The country also had to get its macro-economic fundamentals (e.g. inflation) right for the country to be able to successfully compete in the international market place and benefit fully from the new era of Multi Trading System (MTS). This move will also be attractive to foreign investors.

3:6:0 Trade Fairs

As discussed in the previous chapter, the principal advantage of trade fairs is that, it brings together numerous interested buyers and sellers in one location for a relatively short period of time. They enable exporters to reach potential, and sometimes, hard-to-reach buyers (Couretas, 1984).

Bonoma (1983) argued that trade fairs, in LDCs such as Ghana and the other ECOWAS countries, are usually used for both selling (exports) and non-selling (investment attraction) purposes. This means a *Ghana Trade Fair,* for example, may not only be seen as a mechanism for boosting exports; but as a potential FDI attraction measure. But as argued by Huynen (1973), LDCs such as

Ghana's local trade fairs are heavily agriculture based and may not always attract the maximum level of potential investment. Some investors are reluctant to travel to these fairs in Africa. Consequently, both government and the domestic private sector have opportunities of participating in overseas fairs. Where this is the case, it can be argued that consistency in the participation of such fairs would be of crucial importance to investment attraction and trade promotion in the country. Inconsistent and under-funded participation in overseas trade fairs could fail to enable LDCs "expose" themselves to potential foreign investors through under-representation.

Table 3-10 Ghana's Participation In Overseas Trade Fairs:-1985 - 1999

YEAR	No OF FAIRS	EXPENDITURE (US$)	SPONSORS
1985	6	32,400	EU
1986	1	5,400	EU
1987	4	21,600	EU
1988	6	32,400	EU
1989	3	16,200	EU
1990	7	55,302	EU
1991	6	19,989	EU
1992	6	19,240	EU
1993	3	75,000	Govt. of Ghana
1994	5	38,148	Govt. of Ghana
1995	6	57,624	Govt. of Ghana
1996	3	14,303	Govt. of Ghana
1997	3	12,781	Govt. of Ghana
1998	2	19,953	Govt. of Ghana
1999	2	8,527	Govt. of Ghana

SOURCE: MOTI Annual Reports: Ghana Trade Fair Authority

Table 3-10 shows that both the number of and expenditure on Ghana's participation in overseas trade fairs have been grossly inconsistent. Of particular importance has been the drastic reduction and lack of consistency in both the number of overseas fairs and sponsorship, between the years 1996 and 1999, when the government of Ghana could not win EU sponsorship and had to raise funding itself. No adequate data exists for the period between 1966 and 1984. This issue is discussed further in chapters 5 (where it constituted the basis for hypothesis formulation) and in chapter 7 (where it formed the basis for hypothesis testing).

While the 41 Canadian trade fairs in which Faria and Dickson (1985) surveyed 607 exporting firms from United States of America may have had the singular objective of accomplishing purely selling of goods and services, the Ghana International Trade Fair (such as the one held from March 7 to March 21 1999 in Accra, Ghana) and overseas trade fair participation are aimed at attracting foreign investments in addition to looking for markets both regionally and overseas. Again, the consistency of the latter is a subject of analysis in chapter 7 of the study.

3:7:0 Development Preconditions in Ghana

3:7:1 Introduction

In the literature reviewed in chapter 2, Todaro (2000) argued that whatever constitutes the specific development components, development in all societies

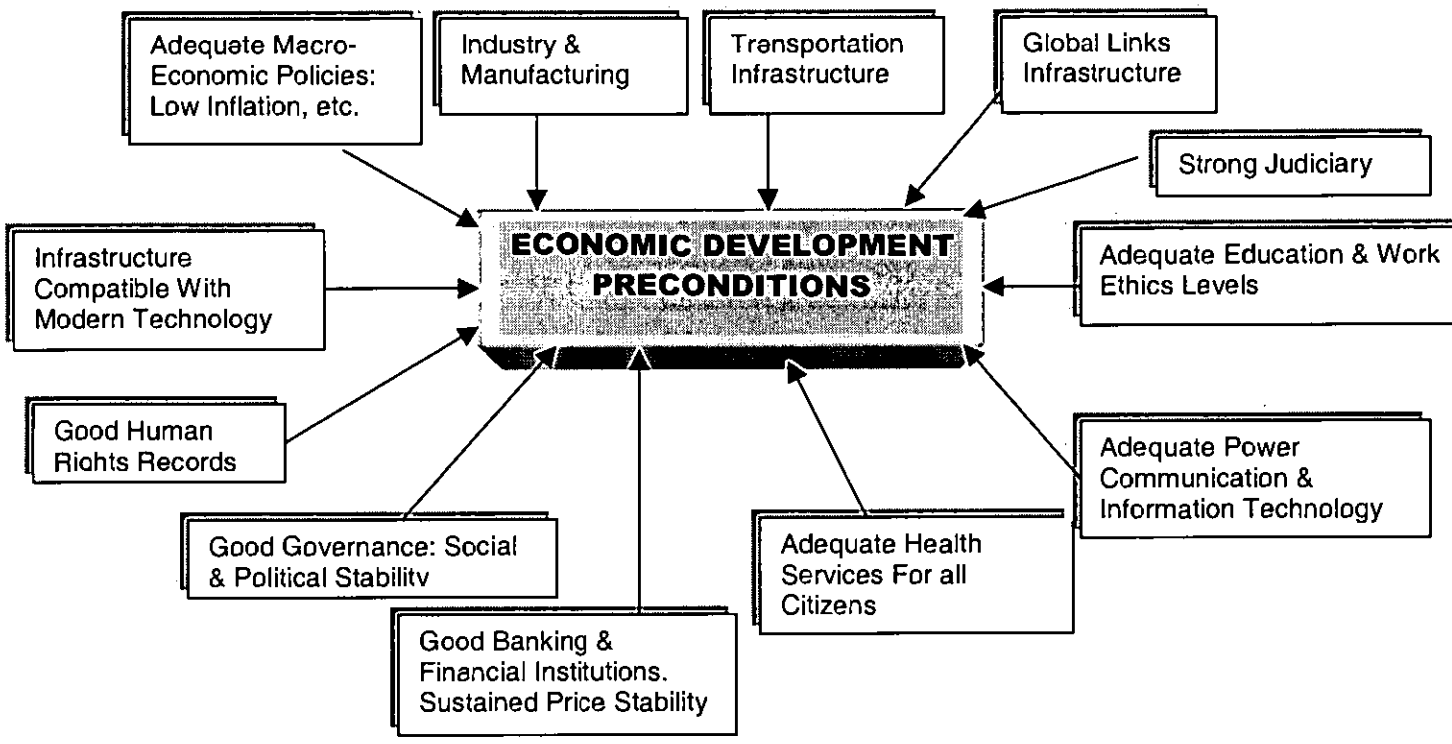
must have at least the following three objectives: (a) increase and enhance life-sustaining necessities such as food, infrastructure, shelter, health and protection (b) improve quality of life; i.e. better education and hospitals, good jobs, etc., and (c) expand the range of economic and social choices available to individuals and nations by freeing them from servitude and dependence.

Again as discussed in the literature in chapter 2, Rostow (1971) opined that the transition from under-development to development could be described in terms of a series or stages through which countries must proceed. Rostow (1971) identified *"Preconditions for take off"* as one of them. Some of these "preconditions for take off" in economic development include among others, stable macro-economic policies, adequate industrial / manufacturing and service structures, transportation, infrastructure, adequate power, communication and technology systems, good health services, good education and employment levels, and as Todaro (2000) argued, good quality of life (See Figure 3-5).

Figure 3-5 illustrates the ideal situation of basic and essential development preconditions that an LDC such as Ghana requires establishing in order to generate foreign investment attraction incentives for potential investors into the country. These conditions crucially need to be present and dynamically prevalent in an African LDC such as Ghana to facilitate easy transfer of both basic and sophisticated technology from foreign investments, and also serving as

an attraction point to attract increased FDI for industrialisation, manufacturing, export and trade into the country to enhance economic development.

Figure3-5 Critical Criteria For Economic Development Preconditions In Ghana



3:7:2 Ghana's Development Factor Conditions

Since the ERP in 1983, Ghana has put together pro-active macro-economic policies (Fry, 1993 & 1994) and Balasubramanyam (1984) intended to positively influence investment attraction for economic development in the country. The country's taxes, industrial, investment, finance, banking, trade and export policies have all been overhauled to enhance efficiency. Consequently, in 1998, there was a great improvement in Ghana's economic management, as evidenced in the various macro-economic indicators (See chapter 6). Similar information relating to pre-1983 is very scarce. Ghana has gradually been moving out of its

heavy dependency on agriculture. The country experienced increases in manufacturing output by 1% of the GDP (not very good for catching up with the rest of the world) and service output was 9% of GDP in 1999 (Amponsah, 1999).

There has been vigorous rehabilitation of Ghana's roads, both in the cities and to the village farms. Unlike the pre-1983 era on which records are unavailable, as at 1996 Ghana had 24.1% of its roads paved as compared to Côte d'Ivoire and Nigeria, for example, which had only 9.7% and 18.8% respectively of their roads. The total yearly Ghana government expenditure on roads, waterways, transport and communications has increased over a hundred times over 30 years (1966-1997) [See Appendix 2]. There was, however, no report of the country's railway system – which was perhaps an indication of the poor state of the country's railways.

In air transportation, Ghana in 1996 carried 197,000 passengers and 30 Air freight-million tons-km as compared with Côte d'Ivoire's 179,000 passengers and 16 Air freight-million tons-km and Nigeria's 221,000 passengers and 5 Air-freight-million-tons-km (Amponsah, 1999).

In 1995, the electric power consumption per capita in Ghana was 318 kwh as compared to Côte d'Ivoire and Nigeria's 159kwh and 85kwh respectively. Electric power production's average annual growth (1980-1995) for Ghana was 4.6% (Amponsah, 1999).

In telecommunications, telephone mainlines per 1,000 people in Ghana was 4, whilst in international communications, outgoing traffic minutes per subscriber in 1996 for Ghana was 267. Daily newspapers per 1,000 people in 1994 was 18 in Ghana. The number of television sets per 1,000 people was 41 and the Internet host per 1,000 in 1997 was 1 (Amponsah, 1999).

In 1995, Ghana's gross enrolment ratio of students in primary schools as a percentage of relevant age group was 76%, secondary schools, 37%, but there was no report on tertiary schools (World Bank, 1998). The total yearly Ghana government expenditure on Education increased over a hundred times during 30 years (1966-1997) [See Appendix 3].

Ghana has a quality of life that gives the country a higher life expectancy than its neighbours, Côte d'Ivoire and Nigeria, for example. In 1998, the life expectancy for males and females in Ghana was 57 and 61 respectively; that of Côte d'Ivoire was 53 and 55 respectively, and for Nigeria was 51 and 55 respectively. Adult literacy rate for Ghana in 1998 was 24% for males and 47% for females. 27% of Ghanaians have access to sanitation and 27% had access to safe water. In 1994, Ghana had 1.5 hospital beds per 1,000 people and the country's health expenditure as a percentage of GDP was 1.4% (Amponsah, 1999).

Democracy and political stability, as urged by Lim (1983) Balasubramanyam (1984), Dunning (1973a), Hood and Young (1979), Balsubramanyam and Salisu

(1991), Ahiakpor (1990), Fry (1994 and 1993) and Lall and Streeten (1977), have taken root in Ghana as evidenced by the parliamentary democracy which the country has enjoyed over two parliaments. There is freedom of speech and expression in the country as evidenced by the free operation of 18 newspapers and the establishment of privately owned radio and television stations. Foreign investors are also welcomed warmly into the country. However, as will be discussed in chapter 7, the political relationship between Ghana's industrial workers and the various governments between 1966 and 1997 has not been stable. This also forms the basis for hypothesis testing in chapter 7.

It can be argued, however, that Ghana has endeavoured to establish many of the preconditions necessary for investment attraction, trade, economic development and growth. Notwithstanding this, however, it has to be stressed that the country has many weaknesses and challenges. For example, some of the country's transportation infrastructure is still poor, power supply is inadequate, medical facilities and personnel are inadequate, and sanitation facilities are also relatively poor. Also the country's per capita income is small. This situation poses a potential negative impact on domestic standard of living and national savings.

Having said that, the argument can be made that, the country's competitive advantages – relative to its regional ECOWAS competitors for example – viz. political and social stability, a growing democracy, strategic location with international airport and sea ports, a large pool of well-educated professionals,

law and order and investor friendly people, increased utilised government expenditure on infrastructure over 30 years (See Appendix 4), can be said to have satisfied, not all, but most of the crucial preconditions for *"take-off"* in investment attraction in economic development (Rostow, 1971). But the question is, what influences have these had on the level of Ghana's level of FDI during the periods before and after? Again, this is empirically tested in chapter 7.

3:8:0 Ghana's Investment Climate

3:8:1 Introduction

As mentioned earlier in the chapter, Ghana is endowed with rich mineral resources such as gold, diamonds, manganese, bauxite iron ore, and various clay and salt deposits. In addition, Ghana is endowed with extensive rich forests with a wide range of fine tropical hardwoods, a wide variety of agricultural produce, rich fishing resources, unique tourist attractions, a rural cultural heritage and the warmth and hospitality of its people.

A stable political environment in Ghana is conducive to an ideal investment climate. Ghana is a prime location for investors who can tap its natural resources and exploit the market opportunities within the country.

3:8:2 Investment Climate

Over the last fifteen years, the economy of Ghana has undergone a remarkable transformation. The economic recovery and management programme embarked

upon by the government in 1983 in a rather challenging environment has re-engineered the Ghanaian economy which has registered an average of 5% per annum economic growth over the last couple of years. However, as cautioned by Ahiakpor (1990) and Meier (1984), these achievements have not succeeded in eradicating poverty in the country.

Apart from the consistent growth rate, the ERP has largely succeeded in pushing the country up in terms of social stability and international credibility. Consequently, a "Gateway to West Africa" for investment has been created with Ghana being the "gateway". As a result, private sector activity is increasing in Ghana and attracting foreign investment in a growing number of strategic areas, notably mining, manufacturing, telecommunications, real estate development and financial services, albeit at a slow pace.

Some of the factors that have been responsible for this trend of positive investment climate have been the adoption and implementation of sound macro-economic policies (warm and embracing attitude to foreign investment, political stability, limitation on ownership, currency exchange regulations, etc.) as observed by Dunning (1973a) and reiterated by Hood and Young (1979) and the enactment of more liberal investment legislation. This legislation seeks to free the investor from bureaucratic constraints and provide facilitating mechanisms to reduce costs associated with delays in implementing projects. As discussed earlier in the chapter, one such piece of legislation is the Ghana Investment

Promotion Act, 1994 (Act 478) which re-established the GIPC as an autonomous government agency mandated to encourage, facilitate and promote domestic and foreign investments.

3:9:0 Conclusion

The chapter examined Ghana's FDI, trade, industrial development, and development preconditions – including investment climate – and how these fit in with their relevant literature by authors such as Balasubramanyam, Salisu and Sapsford (1999), Balasubramanyam and Salisu (1991), Bhagwati (1985), Lim, (1983), Balasubramanyam (1984), Lewis (1954), Rostow (1971), Meier (1976 and 1984), Dunning (1973a), Hood and Young (1979), Ahiakpor (1990), Fry (1994 and 1993), Heckscher and Ohlin (1933), Stolper and Samuelson (1941) Lall and Streeten (1977), Kirzner (1973) and Adam Smith (1976) and Clower *et al*, (1966). Ghana's ERP was designed to employ most of the literature on investment attraction, trade promotion, and economic development to enhance the country's economic growth and development.

The chapter has shown that Ghana has some competitive advantages over some of her ECOWAS competitors in her quest for establishing conditions that enhance improved trade, exports, foreign investments and economic growth and development. The country's strengths in education, political stability, law and order, parliamentary democracy, government free trade and divestiture policies, among others, offer a wide range of services and opportunities to alleviate

informational, administrative and operational trade and investment barriers, although it has to be emphasised that more needs to be done to enhance the country's ability to use these achievements to influence FDI attraction into the country.

The country also needs to strengthen the many weaknesses and challenges that still remain with it. Transportation, health and sanitation and other sectors of infrastructure, for example, need to be improved. Also, the attraction of investment is only one factor in the equation; the long-term viability of these investments – especially with respect to their ultimate transformation of the Ghanaian economy from subsistence into the export of manufactured goods – is yet to be determined.

The opinions of investors need to be sought, studied and evaluated in order to understand the extent to which the experiences of these investors in the country have matched with their expectations. The effectiveness of the basis of communication and co-operation from the GIPC to win increased FDI, e.g. Belch & Belch, and Laswell's communication theories / models have also been discussed in the chapter.

It is important for the government of Ghana to adequately support the budgetary requirements of the GIPC and other relevant institutions and organisations involved in the country's investment attraction and trade promotion activities.

This may prove crucial to maintaining consistency in the participation of Ghana in overseas trade fairs, for example.

In addition, FDI should be sourced and employed to modernise Ghana's mode of production (Kirzner, (1973), Adam Smith (1976), Ahiakpor, (1990) - which is predominantly primary. For, as Brown (1993) observed, world prices of manufactured goods have risen fairly consistently over the last 100 years to a level eight times that prevailing at the beginning of the period; but the prices of primary products – which forms over 90% of Ghana's products – on the other hand, moved up and down in great waves during the century.

It is important that investment attraction and trade promotion (e.g. overseas trade fairs) in Ghana accommodate the appropriate mix of export products for industrial expansion purposes; i.e. goods that are not only with cash earning potentials but also those which have the potential of spreading growth to other industries and services within the country, facilitating technological and human resources development (Rostow, 1971), thereby culminating in a Ghanaian investment, trade and economic development amenable to a modern industrialised community; and the help of FDI in achieving these will be crucial.

The advanced developing countries of East Asia have scored some successes in investment attraction and trade promotion. The next chapter examines some of these successes, and highlights lessons from which Ghana can learn.

Chapter 4

Comparative Evidence Of FDI And Trade Promotion In East Asia And Lessons For Ghana

4:0 Introduction

The study in this chapter will identify the useful investment, trade, and industrialisation policy lessons of the huge East Asian investment and trade success story and from which Ghana's efforts at investment attraction and trade promotion for industrialisation can learn.

Section 4.1 discusses investment and trade reforms in East Asia. Section 4.2 discusses FDI in East Asia, highlighting the impact that FDI has made on East Asia. In section 4.3, technological policies in East Asia are discussed. Section 4.4 discusses industrialisation in East Asia. In section 4.5, the East Asia economic and financial crisis of the late 1990s is discussed. Section 4.6 discusses lessons that Ghana can learn from the East Asia investment and trade success story.

The chapter will also discuss some of the key success factors in the investment attraction and trade promotion policies and practices of East Asia. FDI is discussed with frequent references to countries such as Singapore, Malaysia, Taiwan, and South Korea. Not very long ago, these countries were developing

countries like Ghana with investment, trade and economic development problems and aspirations. They have since succeeded in progressing through these problems to the stage that can be described as "Advanced Developing Countries."

Across the East Asia trade region in the 1970s and before the region's trade, investment and economic reforms, there was increase in foreign debt of most of the countries in the region. The region experienced foreign capital flight and exchange rate deterioration. There was also a notable decline in aggregate output, institutional financial problems and discontinuity of many corporate entities.

These economies did not really 'die' but were close to the 'graveyard', as was Ghana just before the country's Economic Recovery Programme in 1983. Buoyed by vigorous trade, investment and economic reforms, - which contributed immensely to the attraction of significant FDI into the region - the East Asia countries demonstrated that they were solid economies with a demonstrated ability to achieve respectable rates of productivity.

East Asia hugely utilised technological advancement, mainly acquired through FDI to advance and expand its industrial base. Newly established industries started producing significant manufactured goods for both export and domestic use. Consequently, the East Asian trade moved forward at a great pace, even to

the extent of being able to provide leadership for the world trading system in its search for maintenance of momentum toward greater openness.

4:1:0 Trade Reforms: Liberalisation

From the late 1980s, the East Asia economies gradually liberalised trade. The process of liberalisation still continues. With substantial trade liberalisation, the impact of increased investment, industrialisation, trade and exports as well as economic growth is perhaps more discernible in East Asia than any other developing region in the world.

The region's outstanding trade performance - partly as a direct result of trade liberalisation reforms which brought into the region substantial FDI – is, to an extent, credited to the strong role of the respective East Asia governments in supporting export development.

As argued for by Bradford (1994), Smith (1994) and Krugman (1994), Government support actually provided incentive for trade liberalisation within the region. Both liberalisation and government efforts in East Asia ensured adequate macro-economic policies and regulatory trading frameworks, which were important in the attraction of FDI to set up factories and production plants in the region to produce manufactured goods for export.

Government support in trade, investment and export promotion in Ghana continues to be prioritised. However, Ghana government's efforts, although

targeted at ensuring an effective regulatory trade, investment and macro-economic framework – as was the case in East Asia – have not quite yet succeeded in attracting the number of foreign investments that can lift the country to full scale industrialisation for the production of manufactured goods for export to significantly boost trade and enhance economic development. Ghana needs to work harder to create that enabling environment – just like East Asia – to attract FDI for more sophisticated development preconditions such as all-weather roads, new technology, railways, skilled labour, political stability, etc. in order to set up more industries for the production of manufactured goods for export. Where this is successful, Ghana would be edging closer to improving its export and trade performance to enhance economic growth and development.

East Asia's trade liberalisation - just like Ghana's – was preceded by major macro-economic policy changes, as well as the setting up of government institutions that successfully facilitated most of the development preconditions discussed in the previous two chapters.

East Asia's trading countries instituted other adequate and efficient regulations and controls in areas such as banking and finance and price stabilisation. The region promoted efficient production and distribution through a properly functioning price system. With some investment assistance from Japan, East Asia carried out significant investment in infrastructure e.g. roads, bridges, energy supplies, railways, communication networks, developed industrial cities

and towns. The accomplishment of these development preconditions (which attracted significant amounts of FDI into the region, was catalytic to the region's industrialisation success as theorised by Rostow (1971).

In comparison, Ghana has not yet accomplished that level of development preconditions; e.g. infrastructure, particularly railways, roads, communications, information technology, energy, etc. The country, however, is currently undertaking a massive road rehabilitation programme; but it will take years of hard and devoted work, effective government support and foreign investment assistance to catch up with East Asia's current level of development.

East Asia's trade reforms included the huge investment placed in human capital (Lewis, 1954) i.e. good education and health facilities. This was aimed at improving the literacy rate within the region; something that was seen to be necessary for the advancement of investment and trade and development within the region.

Ghana's current literacy rate, buoyed by the introduction of a "Free-Education-For-All" policy by the country's first President Dr Kwame Nkrumah in the early 1960s, can be described as comparatively above average by African standards. However, high levels of "brain drain" (the flight of professionals and well-educated citizens overseas for economic reasons) makes it difficult for the current Economic Recovery Programme (ERP) to benefit significantly from the

country's yearly graduate turnover from its five universities.

The East Asia trade liberalisation reforms, however, did not proceed without some of the difficulties that a country like Ghana might now be experiencing. The region also experienced some problems. The economic costs of protection were dramatised as the protected economies went into fiscal and balance of payments difficulties in the 1980s.

Notwithstanding these difficulties, the consensus among development theorists is that the region was moving towards trade liberalisation; and trade liberalisation reforms were set to go on, come what may. Multilateral institutions, particularly the IMF and the World Bank supported trade liberalisation through both funding and policy advice to East Asia.

In Ghana, the World Bank has been supportive of the country's investment, trade, and economic reforms for development. As at November 1999, the World Bank had registered a total of 24 projects in the country in support of development. To date, the World Bank has lent a total of US 43.5 billion dollars to Ghana (World Bank, 1999). Most of these credits have been from the International Development Association (IDA) with 29 ongoing operations and commitments of over US$ 1.2 billion (World Bank, 1999). Ghana continues to be the largest portfolio in the Africa region of the World Bank.

Instrumental in the East Asia investment and trade success was a set of institutions, which kept policy-makers, connected to business, while enabling

governments to propose and implement appropriate investment attraction and trade promotion measures. These included the tackling of a series of interrelated institutional and structural obstacles such as bureaucracy, corruption, nepotism, etc. that can seriously hold back the process of investment, technological progress and exports in a late industrialising country.

Thus, the East Asia investment and trade success story were all solid cases of sincere devotion to investment and trade reforms that engendered free trade, externally oriented economic growth strategies, unrestricted capital flows, unhindered labour movement, open doors to FDI and an open arm attitude to foreign capital and foreign technology.

The East Asia trade and investment reforms were able to create a substantial industrial and service base with significant global market leadership in industries like electronics, automotive, watches, petroleum products, construction, air transportation, banking, and even the old and tired garments and textiles. East Asia was able to create the massive infrastructure that this growth made mandatory and it would be prudent for Ghana to emulate this.

4:1:1 Investment Policies In East Asia

The East Asia trade and economic development very much benefited from the investment policies embarked upon vigorously by the governments of these countries. They were investment policies that were both successful in attracting

FDI into the region, as well as successfully accomplishing their goal of the rapid upgrading of East Asia investment, trade and export for economic development.

Specific East Asia investment policies included:

(a) East Asia governments successfully guaranteed certain basic conditions for capital accumulation by creating a pro-investment macro-economic environment [(Fry, (1993 & 1994), Dunning, (1973a), Hood and Young, (1979) Ahiakpor, (1990), Bradford, (1994), Smith, (1994) Krugman, (1994)]. Furthermore, "pro-investment" is perhaps, a better description of the East Asian macro-economic policies than "'stable'" or "low inflationary". This is because countries in the region experienced, often for long periods, large fiscal and current account deficits, financial repression and inflationary pressures. Notwithstanding these monetary and fiscal bottlenecks - which usually dissuade potential investors from high level FDI - the region attracted a good amount of FDI.

(b) While East Asia used rejuvenated monetary and fiscal measures to boost investor confidence, they also continue to avoid extreme policy shifts - something very crucial in the attraction of FDI investments. Policy shifts imply volatility and uncertainty in fiscal, monetary and political decisions by a government, and this could damage investor confidence in the countries or regions where there are frequent policy shifts.

In Ghana, fiscal, monetary and political policies shift frequently although quite a lot of effort is being made to regulate monetary policies in the country. Moreover, policy-direction and implementation are not only in the hands of appointed government officials; Heads of States or even Cabinet Ministers frequently influence and change policies. It is sensible to argue that such activities do not send positive signals of confidence to potential FDI providers of the developed countries.

It is imperative for Ghana to learn and replicate these prudent policy-stability lessons in the areas of investment and trade in order to engender that enabling environment that attracts significant foreign investments, which can help the country's investment, trade, and economic reforms to succeed.

However, the country's newly formed parliamentary democracy, which has endeavoured to safeguard a high level of government non-interference in most trade, investment and economic policy direction and implementation within the context of the ERP, can be described as a step in the right direction. However, as discussed above, the extent to which the government's non-interference can reach is not discernible.

4:2:0 FDI In East Asia

In East Asia, the movement of capital gathered momentum, transforming the region's industrialisation, trade, export and economic landscape. A virtuous circle now links FDI and the expansion of investment attraction and trade

promotion for economic development within the region.

Japan, Korea and Taiwan permitted only modest amounts of inward direct investment in their early development. Their emphases were on developing indigenous technological capability and nurturing domestic markets. There were also concerns about the political and social implications of large inflow of FDI. But only few East Asian nations still view FDI as a threat to national sovereignty. On the contrary, they see it as **an effective conduit for technology transfers and a means to secure access to overseas market**s, something Ghana very much needs to replicate in regards to its investment, trade, and economic policies.

In East Asia, policies of the enabling environment for FDI attraction have been designed to address not only market failures, but also a number of problems stemming from the organisation of the industry. This is particularly in relation to economies of scale and the supply of entrepreneurial capabilities - the structure of public institutions - particularly in the provision of public necessities.

The catalytic phenomenon that, perhaps, might have also worked successfully for the East Asia region in the attraction of FDI into their respective countries could have been the very determinants of FDI themselves. Important ones that worked so well for East Asia included:

- efficient policies of recipient and supplier countries
- firm-specific attributes that underlie the competitive advantages of

adequate trans-national corporations

- the ability of trans-nationals to gain from internalising market relationships
- the suitability of recipient countries as locations for foreign production by trans-national corporations

Table 4-1 shows the net intlow of FDI to Asia and the Pacific as compared with those of other developing countries and the rest of the world. The figures in Table 4-1 shows that despite the decline in inflows, the region still accounted for over half of FDI flows into developing countries and over halt of their FDI stock.

Table: 4-1 Net Inflow Of FDI To Asia & Pacific

FDI Flows	1991	1992	1993	1994	1995	1996	1997	1998
US $ Billions								
Asia & Pacific	20	30	60	60	70	80	100	90
Share in Developing Countries	80	90	140	100	100	90	90	80
Share of the World	20	30	40	40	30	40	30	20

SOURCE: UNCTAD World Investment Report 1999

After years of inward FDI by the developed countries of North America and Europe to East Asia, it is interesting to note that currently the sources of FDI in East Asia are predominantly intra-regional. For example, during 1986-92, about 70% of the tlows were from East Asia, about 50% from the Newly Industrialised Countries (NIC). The share of the European and United States flows combined was 20%; that was even less than Hong Kong's (UNCTAD: WIR, 1999).

The gains of the East Asia economies over the years as recipients of significant and efficient FDI put them in the position of providing intra-regional FDI and thereby relying less on the North American and European flows. This is not the situation with Ghana and the other ECOWAS countries. The member countries of ECOWAS do not have the resources to provide significant FDI intra-regionally. The ability of the East Asian countries to do this confirms the strength and growth in the investment, trade and economic development of the region. It is important to note that sustained intra regional FDI in East Asia could provide a solution for the region's over-dependence on external finance as was apparent during the region's financial and economic crisis of the late 1990s (See Section 4:6:0).

4:2:1 The Impact Of FDI In East Asia

Today, FDI is increasingly being used in East Asia to enhance export capabilities. As discussed by Kou and Spar (1995) the effects of FDI in East Asia have been positive. Japanese FDI affiliates in most East Asia countries, particularly in technology-intensive industries, are strengthening the export capability of the region. World-wide analysis of the relationship between FDI and exports does not capture the most recent trends in East Asia, but the relationship is evident in recent developments in South Korea, Malaysia and Thailand and vital for policy making in China, Indonesia, the Philippines and Vietnam (UNCTAD: WIR, 1999).

The role of FDI in promoting growth has been evident in Singapore over the past

quarter of a century, and in Thailand, Malaysia and China over the past five years.

Singapore with a population of only 3.1 million is the 15th largest importer in the world. This is largely due to the Republic's continued role as a trading hub - just over 60% of her imports remain in Singapore; the rest are trans-shipped to all corners of the globe via the world's busiest port. In 1996 Singapore's total trade of S$ 361 billion was about three times her GDP of S$ 133 billion, most of the revenue coming from Singapore's role as a shipping 'hub' of the world (DTI, 1997). In the same year, 26% of Singapore's external trade was with ASEAN neighbours. The country's biggest trading partners in descending order were the USA, Malaysia, the EU and Japan. Total trade with the United Kingdom was some S$ 10.05 billion (DTI, 1997).

Sound trade and economic management, a relatively skilled hard-working labour force, openness to foreign investment and political stability have helped Singapore achieve an average annual real GDP growth of almost 9% over the past decade. GDP grew by a modest 7% in 1996 and in 1997 the government predicted growth between 6% and 7% (DTI, 1997).

Ghana critically needs to explore and replicate these practicalities to open the way for significant FDI inflows into the country to help in the production of manufactured goods to boost investment, export and trade to enhance economic development. Singapore's exports to Britain in 1996 grew by 15% to £2.6 billion. According to official UK government figures, for the first seven months of 1997,

Singapore exports to the United Kingdom grew by 6% (DTI, 1997).

The effects of positive FDI inflows into Singapore are also evident. The successes in Singapore's trade and economy reflect the sheer scale of FDI. Of the record S$8.1 billion of manufacturing investment commitments in 1996, some 71% was from overseas. The sections that benefited most were chemicals (37%) and electronics (43%). The largest overseas sources were the USA (28%), Europe (17%) and Japan (24%). The United Kingdom is the largest cumulative investor in Singapore with investments around S$ 3 billion. In the first six months of 1997, a further S$ 4.8 billion of investment commitments were made (DTI, 1997). Table 4-2 shows Singapore's manufactured goods exports.

Table 4-2 SINGAPORE'S TOP TEN EXPORTS OF GOODS TO THE UNITED KINGDOM IN 1996

	Export Goods And Services	Amount £ (000)
1	Office Machines And ADP Machines	973,222
2	Electrical Machinery and Appliances	601,284
3	Miscellaneous Manufactured Articles	222,039
4	Telecommunication And Sound Recording Appliances	181,706
5	Organic Chemicals	176,607
6	Articles of Apparel and Clothing Accessories	52,324
7	Crude Rubber	46,993
8	Professional, Scientific And Controlling Instruments	39,832
9	Power Generating Machinery	36,804
10	General Industrial Machinery	25,289

SOURCE: Singapore General Information Pack: UK DTI Publication; October 1997

4:3:0 Technological Policies In East Asia

Throughout the developing world in general, major new industries, particularly in export sectors, cannot be easily - and sometimes not at all - established and developed without some form of technological and other help from foreign investors in the advanced industrial countries of the developed countries. However, in these countries, there are varying ways and means by which countries seek technological help. It has to be pointed out, however, that without appropriate measures to strengthen the domestic technological infrastructure base of the country as theorised by Rostow (1971) and Todaro (2000), access to foreign technology is unlikely to sustain rapid economic growth by itself.

In Ghana for example, a mere access to technological expertise into the country could not necessarily sustain a rapid economic growth, let alone engender one. This is because basic infrastructure and information technology systems that will help to strengthen a domestic technological base (ready to receive a high level of foreign technology) are inadequate.

On the other hand, in East Asia, there have been appropriate measures taken to strengthen the domestic technological base, mainly through foreign investment and other forms of technology transfers, thereby making it easy for access to those aspects of foreign technology that complement rapid manufacturing, export, trade and economic growth within the region.

For example in Korea and Taiwan, the government consciously chose to tap

For example in Korea and Taiwan, the government consciously chose to tap foreign capital in ways other than through FDI, a choice which, also implied a resort to other forms of technology transfer. In more specific terms, Korea and Taiwan (a) reversed engineering of imported goods and (b) implemented technology licensing and original equipment manufacture, which were both used extensively in the context of a strategy to support indigenous skills and technology development.

Managerial and technical assistance from Japanese companies also played an important role. For example, in the Republic of Korea, a sub-contracting relationship between *Hyundai Heavy Industries* and the *Kawasaki Shipbuilding Company* was accompanied by the supply of proven designs and the training of engineers and technicians both on site and in Japan. Also in a similar transfer of technology, Nippon Steel acted as an engineering consultant at a crucial stage in the development of *Posco*, the state owned steel producer. In both industries, the country established world-class industries within the space of a decade.

Ghana needs to put in place a similar technology transfer strategic alliance; but such assistance could only be foreign based, ideally from North America, Europe or East Asia. Without foreign investment, the task of 'catching up' technologically let alone the establishment of "world class" industries within ten years (as were the cases in Korea and Taiwan) would certainly not be easy. The governments of Korea and Taiwan provided public information services as well as direct

support to indigenous firms dealing with foreign firms exerting considerable market power in the area of technology transfer as theorised by Rostow, (1971), and reiterated by Todaro, (2000), Bradford (1994) Smith (1994) and Krugman (1994). Again, this is a useful lesson from which Ghana's investment attraction and trade promotion in economic development could learn a great deal.

4:4:0 Industrialisation In East Asia

The past three decades have witnessed an unprecedented pace of growth and industrialisation in a small group of East Asian countries, comprising the Republic of Korea, Taiwan-Province of China, Hong Kong and Singapore. These are the first tier Newly Industrialised Countries (NIC) where economies grew at an average rate of almost 7% per annum during that period. The second tier of the NICs that emerged consisted of Indonesia, Malaysia, and Thailand, for which the average annual growth in the past decade has been 6% (UNCTAD: WIR, 1999).

A common feature of all the East Asian trading economies has been a strong growth of exports of manufactured goods. Both external and intra regional trade have been integral parts of the industrialisation process. Over the past quarter of a century, East Asia's exports rose more than thirty fold to about US$850 billion, raising East Asia's share of world exports from about 7% to 21% (World Bank, 1994).

This pattern of industrialisation, which has not only proceeded in waves but also progressively involved a regional division of labour based on industrial and location hierarchy, - heavily supported by FDI - has been dubbed as the *"Flying Geese Paradigm"* of development (UNCTAD, 1996).

This paradigm provides a description of the life of various industries in the course of production, export, and trade, and of the relocation of industries from one country to another through FDI in response to shifts in competitiveness.

In Ghana, the spread of industries could be spread throughout the country's regional capitals and industrial towns, linked with adequate road networks, transportation, communication and IT systems. Ghana would want to identify itself with the benefits of this paradigm which lie in its ability of creating linkages between different countries (in Ghana's case, regions) in a domestic hierarchy, the mechanisms by which investment, trade, industrial and economic development are transmitted from one region or industrial town to the other. But again, it is imperative that Ghana attracts significant FDI into the country to facilitate the replication of this development strategy.

In the process of the "*flying geese paradigm*" itself, trade is the most important vehicle for transferring new goods and technology across countries supported by FDI. Imports from the more advanced countries *(senshinkoku)* would allow new goods to be introduced into the "follower" countries *(koshinkoku)* (Agarwal, 1980). They would also, through FDI, as argued by Ahiakpor (1990),

1980). They would also, through FDI, as argued by Ahiakpor (1990), Balasubramanyam, Salisu and Sapsford (1999), Balasubramanyam and Salisu (1991), allow the transfer of technology [(Rostow, (1971), Todaro, (2000)] and capital goods needed for their subsequent production in the "follower" economy and eventually, for their export to other countries.

Finally, when a country loses competitiveness in a particular product, its domestic production is phased out and replaced by imports from the "followers" which have succeeded in building up a competitive industry in that product.

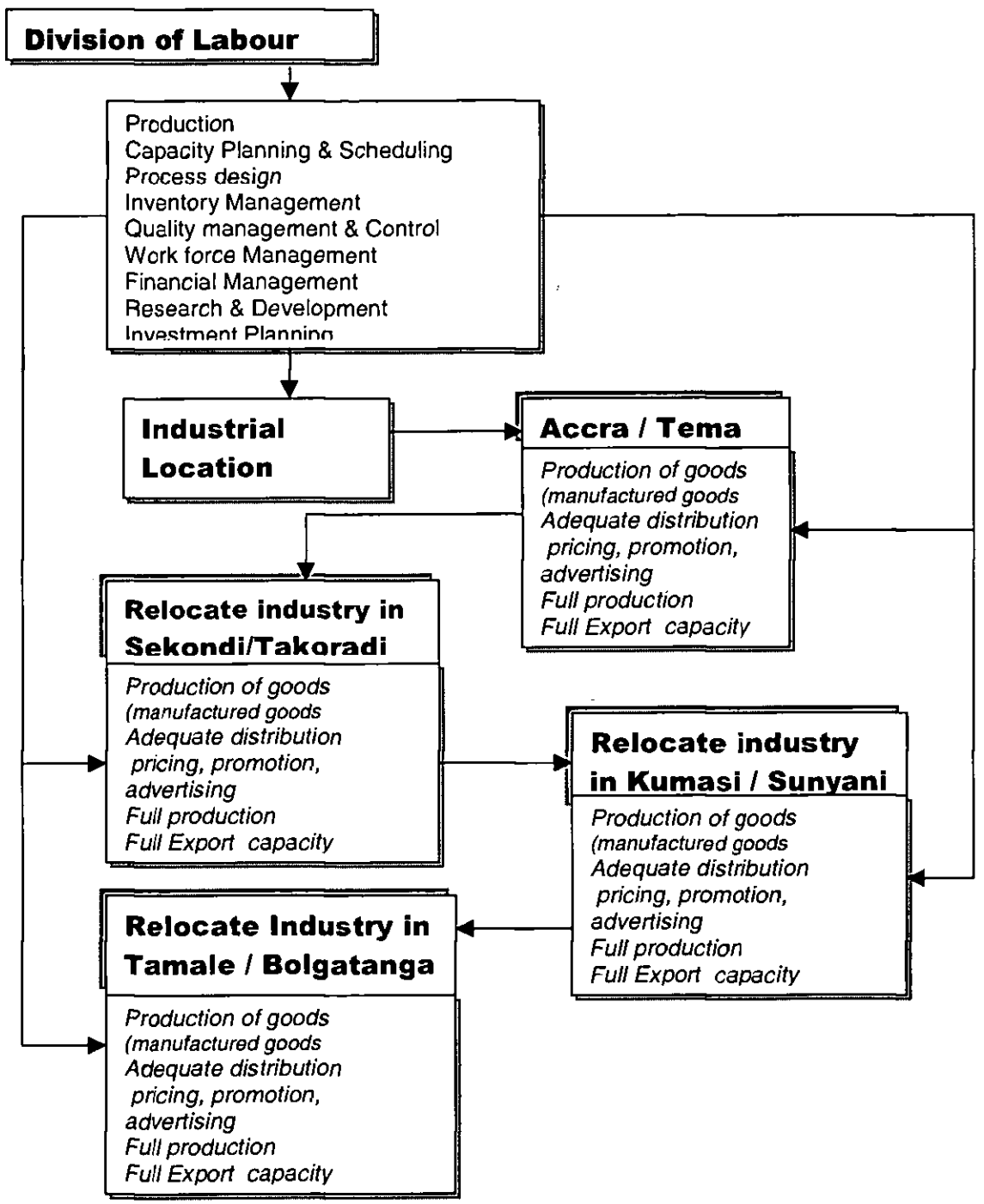
The sequence, thereby, combines the life cycle of a particular product with a dynamic process of shifting comparative advantage (Ricardo, 1817) with a heavy FDI presence. The outcome, then, is constantly evolving regional divisions of labour within a group of economies all striving for the common goal of industrialisation and expansion. Critics may argue that the paradigm may not work well in Ghana due to differing conditions and cultures of these countries. But it can be equally argued that this paradigm model has worked very well for the East Asia developing countries. Ghana is also a developing country; and with the same level of FDI and determination to successfully implement investment and trade reforms in Ghana, the paradigm could work equally well for the country's regionalisation and expansion of industries, particularly in Ghana's quest to export manufactured goods and services as shown in the case of Singapore in Table 4-2.

A suggested model of Ghana's intra-regional transfer of Industries – similar to the one successfully employed by the East Asia countries in the industrialisation of the region – is shown in Figure 4-1. The model in Figure 4-1 depicts a typical industrial enterprise initially in one industrial city, which devolves aspects of investment, planning, production of manufactured consumer goods to another after reaching its full production and export capacities. Initially, the enterprise would be managed centrally, but then devolved. Eventually other firms will exploit the new pool of skilled labour into other regional industrial cities.

The types of industries involved here could be those that engage in the production of basic commodities and consumer products. Local agricultural products such as yam, corn, cassava, tomatoes, pineapples, etc. could be stored and preserved for export purposes. Fish, for example, could be canned into tuna-in-oil, tomatoes could also be canned as peeled tomatoes and even the traditional soft drink *asana* could be bottled for export to the regional and overseas markets.

Ghana could earn and save so much foreign exchange through this regional industrialisation process. But like East Asia, the success of such efforts would largely depend of foreign investment (FDI), which Ghana should endeavour to attract in significant numbers. In addition, the intervention and support of the Ghana government (e.g. positive attitude to foreign investors, positive financial and economic legislation, positive and efficient macro-economic policies, etc.) as discussed in the literature in chapter 2 would prove crucial.

Figure 4-1 A Model Of Ghana's Intra-Regional Transfer Of Industries.



Of special benefit to Ghana in this particular instance, is the ability of this model to link the major industrial cities and towns in the country in a national

industrialisation hierarchy. This could virtually cascade investment, planning, trade, and industrial development and expansion from one region or town to the other with better economic development results throughout the country. Regional Development Grants administered by local autonomous agencies could encourage this type of development. Private investment (domestic or FDI) could also be used in these development projects. Management cadres could be induced to relocate in these areas.

In more recent times, however, more emphasis has been placed on FDI as an additional channel for "recycling comparative advantage", where FDI is seen both to shape and to be shaped by the evolution of comparative advantage between the follower countries and the lead country.

4:5:0 East Asia's Economic And Financial Crisis Of The Late 1990s

In spite of all their excellent trade and economic development performances, the East Asia economies woke up to be told that their practices were flawed, their strategies were faulty and their approaches were aberrant. Their leaders were accused of corruption, nepotism and crony capitalism. Their creditworthiness was downgraded. Their short term lending was revoked. Their business sector was labelled shaky and fragile. Their governments were considered inept and incompetent. Their currencies were viewed with disdain. Their state owned corporations fell out of grace. Their real estate sector was abandoned.

What could have actually gone wrong? Good performance or not, an economic crisis did evolve. A financial contagion started in Thailand and then spread; first across much of Asia and then to Russia and Latin America. A massive devaluation of the national currencies against the US dollar (and other currencies) was accompanied with large-scale currency speculation, withdrawal of institutional investors and a near collapse of the domestic banking sector. Under the heading, "Is Contagion A Myth?" *The Economist* (1998) remarked, *"Economies that looked healthy one moment was seriously ill the next – not apparently because of any new development within their borders but because of the shock from abroad, in the form of a withdrawal of international investment."*

Three countries in East Asia, Thailand, Malaysia and Indonesia, bore the brunt of these economic crisis. Again what went wrong? A critical examination summarised two broad explanations to the East Asia problems of the 1990s. One emphasises intrinsic "home-grown" factors as corruption, lack of transparency, lack of information, loose regulation and last but not least, "crony capitalism". The other explanation stresses investor panic and 'herd mentality'.

It is difficult to argue the authenticity of these allegations although *The Economist* (1998) under the Article, *"The Perils Of Global Capital"* stated, *"....there is probably some truth to both interpretations."*

The difficulty of authentication of the explanations derives from the fact that traditional economic performance parameters of the economies in question were, as recently as 1996, healthy and no economic change occurred in 1997 to justify such a massive loss of confidence. Crony capitalism has always existed in the East Asia countries and is very likely to have stimulated economic growth rather than curtailed it over the years under consideration (Business Weekly, 1998). Crony capitalism does also exist in Western economies and does not seem to have the disastrous effect claimed in the Asian context (Financial Times, 1998).

System fundamentals of these economies, again, until 1997 were sound. Despite adverse developments, they continued to reflect basic soundness. Well-educated and disciplined work forces are still available. Relatively high cases of productivity growth have suffered a set back but seem to recover. Viable infrastructure is still there and the sound entrepreneurial zeal that has always driven the private sectors of these economies continues to prevail.

What has possibly, to all appearances, undermined the system is the massive outflow of capital associated with the shift in investors' confidence that the region witnessed in 1997.

Attempts at remedies have been underway and the results, mixed in the early stages of recovery, appear to be getting much clearer.

4:6:0 Lessons For Ghana

Rapid growth, rising living standards and increased international competitiveness in the trade and economy of East Asia have caught the attention of policy makers and researchers in other developing regions, as well as in the developed world. A broad debate has consequently opened up on the lessons that can be drawn for meeting the wider challenges of investment, trade and economic development, particularly in an LDC such as Ghana.

How such high and sustained rates of investment, trade and economic growth have been achieved among a large group of economies is, however, still debatable. To date, opinion has been divided. In one view, the experience confirms the case for *"getting prices right"* through the free play of market forces. In the other, it points to the limits of price signals as a guide to the process of capital accumulation and technological catching up - mainly through FDI - and confirms the benefits to be drawn from appropriate form of government intervention.

These interpretations have tended to pose stark choices for countries such as Ghana seeking to emulate East Asia's example: the market versus the state; inward versus outward-oriented development; investment or exports as the engine of growth.

The East Asian investment and trade success experience holds useful lessons

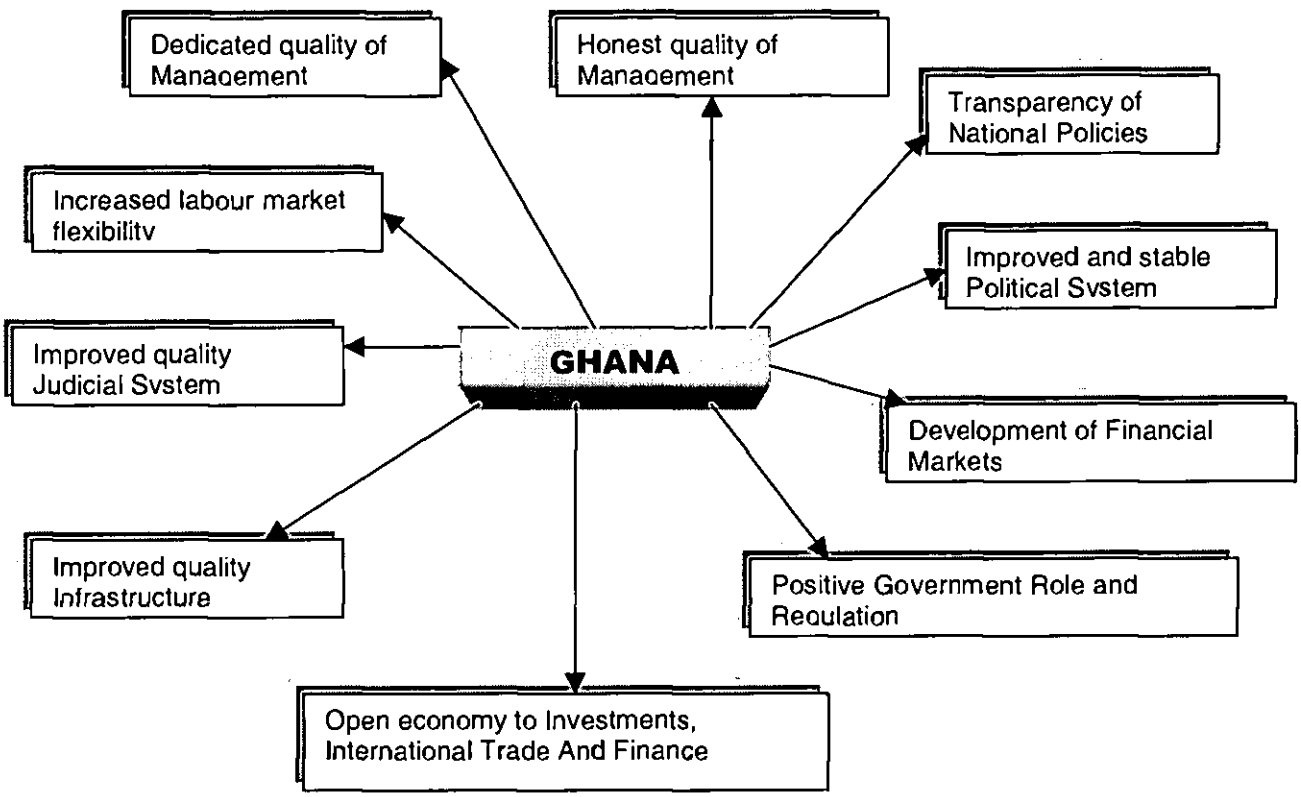
for Ghana in four broad areas.

First, it points to the need for, and the ways and means of establishing, a dynamic interaction between investment and trade in the industrialisation process. As will be discussed in later chapters, these useful lessons are what Ghana's investment attraction and trade promotion should be focusing on, with the ultimate goal of replicating them.

Like East Asia and as argued by Fry (1994 and 1993) and UNCTAD (1999), Ghana should replicate this by the continuous implementation of sound and adequate macro-economic and other investment attraction policies while remaining competitive in their quest for foreign investment for expanded trade, export and economic development. Key factors, as modelled in Figure 4-2, in such policy areas include:

- openness of the Ghanaian economy to international trade and finance
- positive role of the Ghana government and regulation
- development of financial markets
- improved quality of Ghana's infrastructure
- improved quality of Ghana's technology
- honest and dedicated quality of management
- increased labour market flexibility
- improved and sustained quality of the Ghanaian judicial and political institutions

Figure 4-2 Model Of Ghana's Necessary Development Criteria



Second, the example of East Asia shows how it is possible to mobilise and make full use of natural resource endowments and abundant labour as theorised by Heckscher and Ohlin (1933). Ghana has numerous natural endowments such as gold, diamonds, oil, timber and others. These have the potential of forming the incentive on which an effective industrialisation "revolution" in Ghana should be made to sweep the regional and industrial cities and towns of the country as suggested and modelled in Figure 4-1.

Current efforts to attract investment for industrialisation for the production of manufactured goods for export by the GIPC, the DIC and the GEPC should replicate the sound and adequate trade and economic policy management as seen in East Asia. Strenuous efforts should be made, either by improving the quality of life or by sustaining political stability (Dunning (1973a and 1993b), Hood and Young (1979), Lim (1983), Balasubramanyam (1984), Balasubramanyam and Salisu (1991), in the country, to retain a skilled work force (stop the "brain drain"). There should also be transparency of the country's openness to foreign investment e.g. company ownership and attitude to foreign investors as observed by Dunning (1973a) and Hood and Young (1979).

Third, it demonstrates the need for industrial upgrading and moving up the "technological ladder" - an issue currently extremely necessary and vital for the success of Ghana's investment, trade, and economic development aspirations. Ghana needs to combine FDI attraction with indigenous efforts of technological capabilities to complement the efforts of foreign investors as theorised by Rostow (1971).

The reverse engineering of imported goods, implementation of technology licensing and original equipment manufacture - as a means of technology transfers and as were the cases in East Asia - could be used by Ghana to support indigenous skills and technology development. These should be backed by extensive public information that consolidates direct government support for indigenous firms dealing with foreign firms for technology transfers [(Bradford

(1994) Smith (1984 & 1994) Krugman (1994)]. However, as theorised by Rostow (1971), Ghana has to ensure the establishment of technology infrastructure that has the ability and skills to accommodate such modern technology transfers.

Fourth, the East Asia crisis discussed earlier in the chapter demonstrates the vulnerability of even sound and well performing economies of the world, particularly those of developing countries who rely mostly on external funds to boost investment, trade and economic development. Ghana needs to learn from this experience the perils of over-reliance on foreign capital and institutions in the continuous pursuance of investment, trade, and economic development.

The reality, however, is that Ghana currently needs foreign capital and institutions to develop the country's trade, investment and economic bases. Although this particular lesson of the East Asia experience could be well noted, Ghana currently has no apparent alternative but to vigorously continue to seek FDI in order to industrialise and develop.

4:7:0 Conclusion

This chapter reviewed the major comparative evidences of East Asia's investment, trade, and economic development policies and strategies. The chapter highlighted specific trade, investment and technology transfers that the region has so successfully attracted for industrialisation and development. The effects of these reforms on trade and exports as well as economic development have also been discussed.

The major economic crises of the late 1990s were also discussed. A constructive comparison of what currently transpires in Ghana in these areas of economic development and what the country needs to do, learning from the East Asia experiences, have also been discussed. The discussions broadly described Ghana's current macro-economic, investment attraction, trade and export promotion institutions' activities to appear to be moving in the right direction. However, with the comparisons made and lessons learnt from the East Asia experience, it has been deemed necessary that Ghana accelerates its efforts far more than what currently prevails.

Models for mass regional industrialisation processes in most of Ghana's regional cities and industrial towns as well as Ghana's development competitive criteria have been suggested. More efficient forms of technology transfers – as were in the cases of East Asia's Taiwan and South Korea – were recommended. Ghana government's limited but supportive intervention on the country's trade, investment and economic development policy matters have also been recommended.

Finally, the chapter outlined some of the achievements that accrued to East Asia's Singapore. Although the two countries may have different cultures, economies, geographical locations and other features, some of the achievements of this country could accrue to Ghana if the country endeavours to replicate the successful investment, trade, export, and economic development policies and practices of Singapore and the other East Asia countries.

Chapter 5 Research Methodology And Design

5:0 Introduction

The preceding chapters of this study employed a theoretical approach and provided the theoretical background on which the research was based. In this chapter, the methodology and design used is discussed. *The Ghana Investment and Trade Framework* developed based on interviews with respondents in relevant Ghanaian institutions is also discussed. The hypotheses guiding the study are also developed.

A detailed overview of the research design is discussed in section 5.1. The data requirement and collection processes are discussed and explained in section 5.2, followed by justification of the choice of interviewees and the variables employed. Section 5.3 discusses description of variables and the response format of the study. This includes some views of interview respondents. Section 5.4 develops and discusses the *Ghana Investment and Trade Framework*. The hypotheses guiding the study are developed in section 5.5. Section 5.6. discusses the rationale behind the methodology employed. Finally, section 5.7 discusses the validation issues in relation to some of the results achieved.

5:1:0 Research Design

5:1:1 The Research Process

The study assumed a hypothetico-deductive approach to gain an insight into the research problem area and to develop a conclusive research. With the objective of investigating the relationship and influence between Ghana's development

preconditions and FDI attracted into the country, the research focussed on a wider area of empirical investigations covering areas such as development preconditions, investment attraction, trade promotion, export output and economic development within the country. Again, with the hypothetico-deductive approach, an exploratory research mode is used to address the research objectives. The analysis of secondary data facilitated the identification of the right variables required during the empirical investigation.

With regards to the development of the *Ghana Investment and Trade Framework,* face-to-face interviews facilitated information gathering towards the realisation of that objective. The study also found it appropriate to use a longitudinal model (See Figure 5-1) in order to satisfy its objectives. A route map linking objectives, literature and theories is also shown in Figure 5-2.

The study conducted an exploratory research through secondary data, observation, and unstructured interviews. The interview programme covered relevant government and non-government institutions involved in investment attraction, trade and export promotion as well as economic development. Altogether fifty people were spoken to using unstructured questions to guide the interview (See Appendices, 6,7,8 and 11).

The following institutions were visited: The Ghana Ministry of Trade and Industry, The Ghana Ministry of Finance And Economic Planning, The Ministry of Roads and Highways, The Ghana Investment Promotion Center (GIPC), The Ghana Export Promotion Council (GEPC), The Ghana Free Zones Board (GFZB) and the Institute of Statistical, Social and Economic Research *(ISSER)* of the

University of Ghana. The Ghana Statistical Service was also visited. The study involved the identification of some key officials of most of the listed institutions from which both primary and secondary information on their respective organisations was obtained. As mentioned earlier in this section of the study, unstructured questionnaires were developed to guide the primary data collection from the officials of these institutions (See Appendices 6,7 and 8). This was due to the qualitatively exploratory nature of the research. By this, the researcher was able to understand and link literature, theory and analysis within the investment, trade, and economic development issues within Ghana to the study's main objectives, particularly investment attraction and trade promotion in economic development.

In the model showing the research process in Figure 5-1 research approaches and the data sources employed in the study are diagrammed. It includes the identification of the research problem, development of the research objectives, identification of data needs and sources as well as the design of part one of the conclusive research, which included the development of hypotheses. The research process continued with the development of the *Ghana Investment and Trade Framework* after interviews with respondents. Part two of the conclusive research was designed and conducted. Empirical evidence was gathered on Ghana, data was analysed using Micro-Fit (MF) and Statistical Package for Social Sciences (*SPSS)* and the hypotheses developed were tested using multiple regression and discriminant analysis. Findings and analyses are interpreted and conclusion and recommendations made.

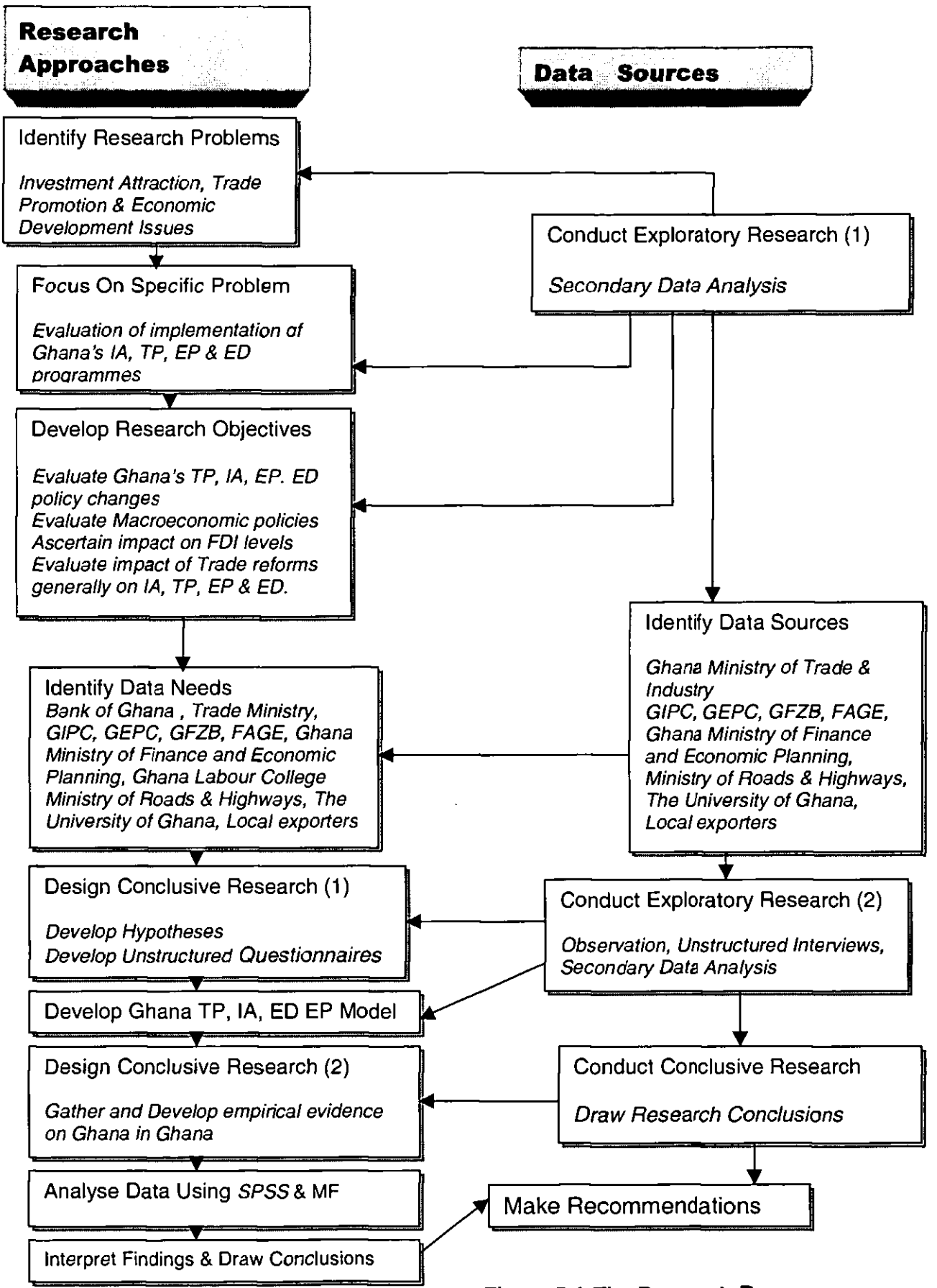
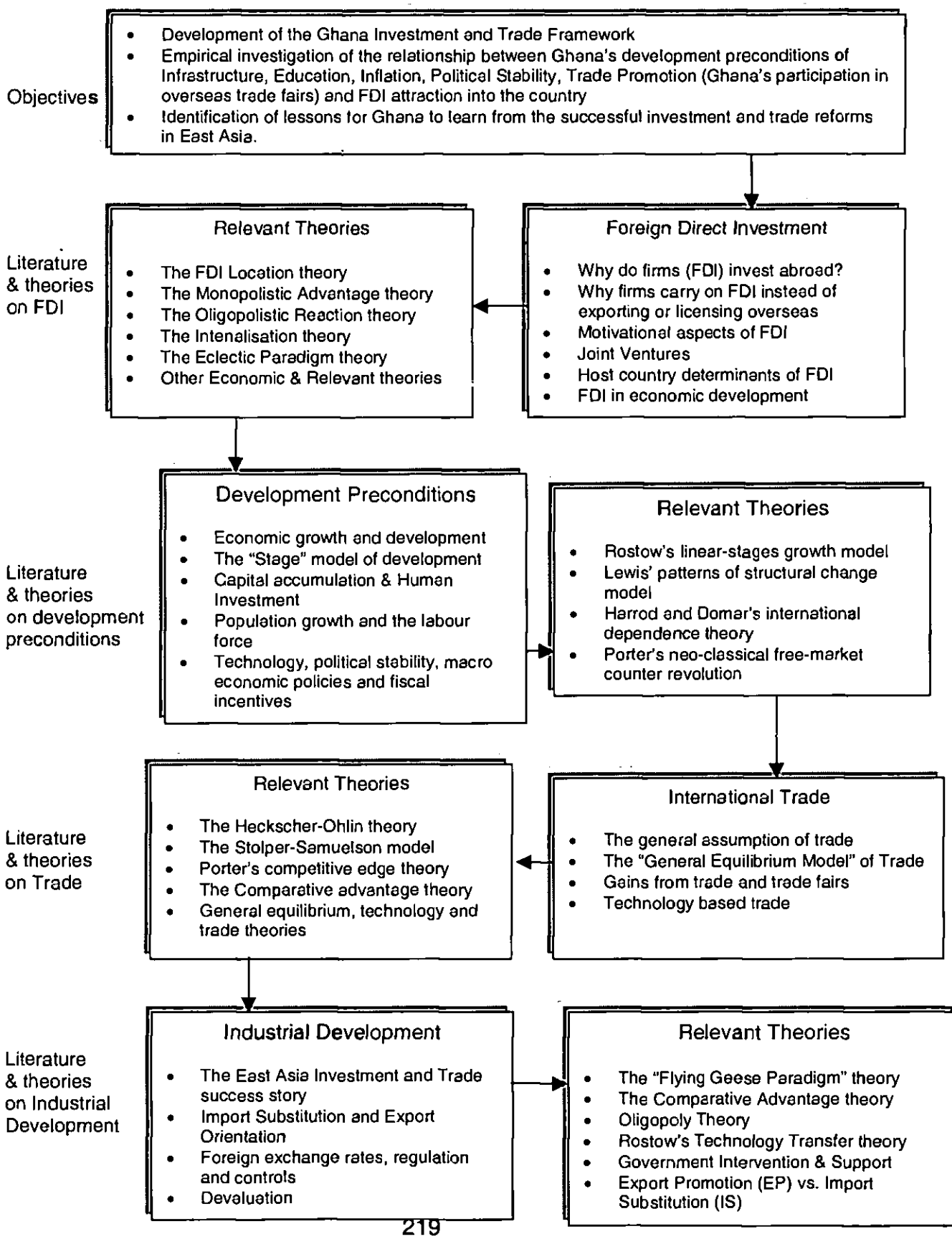


Figure 5-1:The Research Process

Figure 5-2 Route Map Linking Research Objectives Literature And Theories



5:1:2 Data Needs

One of the study's main objectives was the development of an investment and trade framework for Ghana. Another major objective was to investigate the possible relationship between development preconditions (i.e. *Infrastructure, Political Stability, Education and Inflation*) in an LDC such as Ghana, and the level of their influences in attracting foreign direct investment into the country. This also involves the relationship between Ghana's trade promotion activities (Ghana's participation in overseas trade fairs) and the level of foreign direct investment this attracted into the country. Both objectives called for a longer time horizon as suggested by Diamantopolous *et al* (1993), Nyberg (1987) and Seringhaus (1987b).

The choice of Ghana within ECOWAS was a careful one. First, just like the achievement of political independence in black Africa, it was Ghana who first launched the Economic Recovery Programme (ERP) to highlight the country's current efforts at investment and trade reforms as well as economic restructuring within ECOWAS as has been the case in East Asia.

Secondly, a successful study of investment attraction and trade promotion in economic development in Ghana could be a model for other ECOWAS countries (indeed all developing Africa) to study and follow.

The first data collection occurred with a visit to the Ghana Trade Mission in London, and thereafter followed by five separate trips to Ghana in West Africa.

To address the research objectives effectively, it was necessary to gather data in three main areas:

(i) Micro level: Ghana's exporting firms' structural experiences and knowledge of characteristics in relation to investment attraction and trade and export promotion for increased production of manufactured goods for export

(ii) Macro level: government institutions' knowledge base and policies currently being pursued and the exogenous variables being used as inputs towards the accomplishment of the country's investment attraction, trade and export promotion for economic development. e.g. inflation, foreign exchange regulation and stability, fiscal policies, etc.

(iii) Secondary data on Ghana's development preconditions of infrastructure, education, inflation, political stability and overseas trade fair participation (See Tables 3-10 and 7-1)

The secondary data on development preconditions spanned a period of 30 years (1966-1998). That of trade promotion activities (i.e. participation in overseas trade fairs) spanned a period of 15 years due to data-source limitations in Ghana.

5:1:3 Selection Of Organisations

The selected organisations were from the main trade and export and investment promotion institutions of Ghana. At the micro level, some exporting firms were

visited. These included Sabary Enterprises (Gh.) Ltd., Accra and Alluworks (Gh.) Ltd., Tema. At the macro level some principal government institutions were visited including the GIPC, GEPC, GFBZ, Ministry of Finance and Economic Planning, Ministry of Trade and Industry, Ministry of Roads and Highways, and Ministry of Transport and Communications, The University of Ghana's Institute of Scientific, Social and Economic Research (ISSER), Bank of Ghana and the Ghana Statistical Service.

5:1:3:1 Criteria For Choosing Organisations

Selection of the exporting companies was based on their past export performances. In addition, the ability of these companies to contribute efficiently to the research through useful in-depth interviews which served as a guide and basis to the development of the *Ghana Investment and Trade Framework.*

Sabary Enterprises (Gh.) Limited in Accra, for example, exports aluminium ingots to Europe, produces and exports some primary commodities regionally to most ECOWAS countries. The criteria, therefore, for exporting companies were effective trading activities, experiential knowledge [(Johanson and Vahlne (1977)], investment and ability to provide useful information.

With the government organisations, the criteria was very much in the remit of these organisations to develop macro economic policies which encourage, promote and enhance exports diversification and effective implementation of the necessary inputs. e.g. the organisation and monitoring of vigorous trade promotion activities for the attraction of foreign investment to assist in

infrastructure development and the building of essential development preconditions, and the creation of an investment climate conducive to FDI attraction into Ghana as observed by Dunning (1973a) and Hood and Young (1979).

5:2:0 The Data Requirement And Collection Process

With regard to the study's objective of finding which development preconditions influence increased FDI attraction into Ghana, it was necessary for the research to gather a large number of data in order to apply the relevant statistical and analytical method such as correlation and regression values calculated on *MF* and *SPSS* to determine significance or otherwise of the variables employed.
Data gathered from ISSER at the University of Ghana, the Ghana Statistical Service, Bank of Ghana, GIPC, GEPC, the Ghana Labour College, and the Ghana Ministry of Finance and Economic Planning were useful in the empirical analysis done in chapter 7.

With regard to the study's objective of developing the *Ghana Investment and Trade Framework*, as mentioned earlier in this chapter, the main institutions surveyed and respondents interviewed were based in Ghana within West Africa. For this reason, it was necessary for the researcher to make fieldtrips to Ghana in order to carry out the face-to-face interviews (Maholtra, 1996) described earlier on in the chapter, as this was found to be the most appropriate and effective main data collection method for the study. Furthermore, the difficulty in gathering research information in Africa - mainly due to inaccurate data and data bank

facilities - made it necessary for the researcher to have a strategy that allowed face-to-face interviews rather than sending out questionnaires. The face-to-face interviews were seen as a strategy that would facilitate a practical approach - primary source - towards the development and building of the *Ghana Investment and Trade Framework*. Most of these respondents were mostly in senior policy positions and, therefore, were in a position to make significant contributions (See Appendix 11).

In regards to the objective of finding which development preconditions (e.g. *Infrastructure, Education, Inflation, Political Stability, Overseas Trade Fairs* participation) influence increased FDI attraction into Ghana, specific and significant data were required. For example, sensitive government figures such as the total utilised government yearly expenditure on Infrastructure and Education for 30 years, yearly Inflation rates for 30 years, the number of yearly Industrial Strikes (civil unrest) for 30 years and the total expenditure and number of Ghana's participation in overseas trade fairs for 15 years proved very crucial. (See data in Tables 3-10 and 7-1).

The visits to the Institute of Development Studies, University of Sussex and the Department of Trade and Industry (DTI) in the UK, the International Monetary Fund (IMF), World Bank and the United Nations Conference on Trade And Development (UNCTAD) offices in the USA provided some useful secondary data for the study. Academic *Journal* articles and text books – particularly in areas of developing countries, investment, development economics, trade and

marketing - proved extremely useful in the provision of secondary data used. These publications served as a useful reservoir of important information and data sources for the study, particularly on the relationship between development preconditions and investment attraction, FDI, trade and export promotion and economic development in LDCs such as Ghana. Some information was also gathered from my discussions with my supervisors, other academics, as well as fellow Ph.D. research students from other Universities in the UK. Some of these students came from the Universities of Loughborough, Westminster and Sussex.

In regards to the building of the *Ghana Investment and Trade Framework*, the face-to-face interviews concentrated mainly on the following:

- the number of Ghana's trade promotional activities, for example, trade exhibitions, overseas trade fairs, conferences, clinics, road shows, since 1983 (pre-1983 records were not available)
- how far the trade success story of the East Asian countries influenced Ghana's efforts to improve its investment, trade, exports, and economic policy
- Ghana's enabling investment climate; for example, the "Ghana Free Zone" and "Ghana Gateway" investment policies
- the number of FDI investment projects attracted into Ghana between the years of 1983 and 1999 , 1998 and 1999 and also pre-1983 FDI levels.
- the names of some of the FDI investing companies and their export products in the country
- results of Ghana's latest trade figures in manufactured goods, handicrafts,

quantity and value of gold as well as the value of exported canned tuna to Europe from Ghana

- the structure and performance of Ghana's trade and economy

5:2:1 Unstructured Questionnaires

Because of the predominantly qualitative and exploratory nature of the research, unstructured questionnaires were developed to guide the primary data collection during the interviews (See Appendices 6, 7 and 8). The study involved the identification of key officials of these institutions identified earlier in the chapter from which both primary and secondary information on their respective organisations addressing the study's objectives were obtained.

The study was careful about the type of questions respondents were asked. As confirmed by Maholtra (1996), if sensitive questions are asked at the beginning of interviews, respondents are more likely to stop answering early and the questionnaires may not be usable. Also, as the researcher became more involved in the fieldwork, particularly for the development of the Ghana Investment and Trade Framework, it became apparent that some particular information and accounts being received relied very much upon more 'responsive' method of interviewing. Consequently, some of the interviews were conducted in a rather relaxed atmosphere. Each interview lasted an average of 60 minutes and was taped. The interviewing procedure was a direct approach (not disguised) because the purpose of the study was disclosed (it was common

knowledge) to all respondents. Furthermore, the purpose of the project was obvious from the questions the researcher asked.

The ***laddering*** technique (Malhotra, 1996) of in-depth interviewing was used. By this, the author's line of questioning proceeded from respondents' views of Ghana's current investment, trade, export and economic development levels, through what they perceived as its deficiencies and to what they thought should be done to remedy the situation. The technique allowed the author to tap into the respondents' network of meanings.

The ***hidden issue questioning*** technique (Malhotra,1996) was also applied particularly during the author's interviews with some of Ghana's exporters. This made the author focus on these exporters' "unhappy areas" such as declining exports and export earnings, poor roads and transportation systems, inadequate infrastructure, insufficient foreign investment to help bring in skilled labour and modern technology, etc. This line of questioning enabled the researcher to focus on exporters' personal views, particularly concerns that they might have on the current approach to Ghana's investment, trade, export, and economic development objectives.

5:3:0 Description Of Variables And Response Format

Malhotra (1996) of the Georgia Institute of Technology in his book, "***Marketing Research***" wrote *"..In developing an approach, qualitative research is often used for generating hypotheses and identifying variables that should be included in the*

research." Malhotra was referring to the researcher's need to develop an approach to the research in which the researcher finds it fairly easy to accurately identify useful variables that relate to and would prove meaningful to the particular field of study.

Relying on this research principle, data collected and used as variables (See chapter 7) were employed in multiple regression and discriminant analysis to test the relationship between the specific development preconditions of *Infrastructure, Political Stability, Education and Inflation* (independent variables) in Ghana and their direct influences on the attraction of *Foreign Direct Investment* (dependent variable) into the country over a period of 30 years. Discriminant Analysis was also used in testing the relationship between Ghana's trade promotion activities (*overseas trade fairs*) and FDI attraction into the country.

The variables employed in the empirical analysis in chapter 7 included the following:

Dependent Variable:

(i) Ghana's yearly direct investments (FDI) inflow into the country for 30 years.

Independent Variables:

(i) Ghana's yearly **Infrastructure** levels – quantified by Ghana government's total yearly utilised expenditure on roads and waterways, transport and communication for 30 years (See Table 7-1 and Appendix 3).

(ii) Ghana's **Political Stability** – quantified by the yearly number of civil / work unrest, strikes and disturbances against the government of the day for 30 years (1966-1998) (See Table 7-1 and Appendix 4).

(iii) Ghana's **Literacy (Education)** levels – quantified by Ghana government's total utilised yearly expenditure on Education for 30 years (1966-1998) (See Table 7-1 and Appendix 2).

(iv) Ghana's yearly **Inflation** rates – quantified by the actual yearly inflation rates in Ghana for 30 years (1966-1998) (See Table 7-1 and Appendix.5)

(v) Ghana's trade promotion activities quantified by the number of Ghana's trade promotion oriented **Overseas Trade Fairs** for 15 years (1985-1999) and the level of utilised government expenditure on them (See Table 3-10).

5:3:I The Dependent Variable

The dependent variable actually gives the indication and direction of Ghana's yearly direct investment levels. Information on the independent variables was gathered through a very intensive research work at *ISSER*, University of Ghana, the Statistical Service of Ghana, the Ghana Ministry of Finance and Economic Planning, the GIPC and GEPC, the Ghana Labour College and the Bank of Ghana. As would be seen in chapter 7, these figures show a trend of yearly increases in the level of direct investments flowing into Ghana over the period.

5:3:2 The Independent Variables

5:3:2:1 Measurements: - Qualitative And Quantitative Measures

The independent variables - which are predominantly vital development preconditions in Ghana - were measured both qualitatively and quantitatively as suggested by Nyberg (1987) and Seringhaus (1987b). From a government's (e.g. the government of Ghana) point of view, the results should be quantified where possible (Nyberg, 1987). However, Bilkey (1982) suggested that qualitative measures of performance would be more reliable as managers of these government institutions (e.g. the GIPC, GEPC, GFZB, Ministry of Trade and Industry, Ministry of Finance And Economic Planning, etc.) make decisions based on their perceptions and interpretation of policies, results and experiences rather than on "statistics" alone.

5:3:3 Response / Feedback

This includes reactions from respondents during interviews from the relevant target government institutions. All these institutions have monitoring and evaluation programmes by which they measure the success of their efforts. This is mainly published in the form of quarterly statistics on registered foreign and local investment projects, the number of inquiries received and the commitment made to projects by investors according to pre-agreed schedules with these institutions.

What is not currently in place, however, - with GIPC for example - is an in-depth assessment of the different categories of potential foreign investors, which

Ghana for investment. Also due to limited resources, the process of reinforcement of the GIPC's message through follow-ups in relation to the stages in the decision-making process or communications response process to investors is very limited.

5:3:4 Qualitative Measures

Qualitative measures of investment, trade, export, and economic development reforms in Ghana assessed through interviews, revealed the need for strategic government support [(Bradford (1994) Smith (1994) Krugman, (1994)] in Ghana's efforts towards the achievement of increased investment and trade for economic development. This links with the thesis objective of developing the *Ghana Investment and Trade Framework.*

Respondents - many of whose views form the basis of the *Ghana Investment and Trade Framework* - mentioned during the interviews that the net results of the combined strategies of public and private sector institutions - like the Ministry of Finance and Economic Planning, the Ministry of Trade and Industry, the Ministry of Mines and Natural Resources, the Ministry of Transport and Communications, the GFZB, GEPC, GIPC - as well as foreign investors, can only be assessed as a whole, and not be attributed to individual government institutions. Neither could one government institution's statistics be representative of Ghana's efforts.

In the researcher's interview with respondent [1]***F,*** for example, he stated the objective of investment and trade policy in Ghana as that of creating a buoyant and self sustaining export sector by expanding the exports base through the vertical and horizontal diversification of the product range (i.e. changing from the predominant production of primary goods to semi-processed goods) with emphasis on value addition. The extent to which this has been a success is, however, not clear.

Respondents ***L*** and ***D*** also expressed similar views when the same questions were put to them. It is clear from the answers given by these respondents that, no serious and significant diversification of Ghana's primary products into manufactured goods for export has been apparent.

As expressed by respondent ***M*** in the researcher's interview with her, such diversification of the product range (i.e. replacing primary goods with manufactured goods for export) require a dynamic interaction between investments and exports backed by a significant industrialisation process. This is similar to the model of industrialisation suggested for Ghana by the study in chapter 4.

She advised that, for Ghana to really achieve product diversification to develop and expand its investment, trade and exports, Ghana and the ECOWAS region - like East Asia - needed to mobilise and make full use of natural resource endowments by succeeding in attracting significant and sufficient foreign capital, skilled labour and advanced technology to boost the production bases in the

[1] A list of key respondents interviewed by the researcher is attached in appendix 11 of the study and referred to as A-T.

country to enable the production of manufactured goods for export. She stressed the need for Ghana to embark on an industrial upgrading process within the framework of substantial trade reforms which would put in place most of the development preconditions required for *"take off"* as theorised by Rostow, (1971) and Todaro (2000) in the literature.

Respondent ***M*** stressed that Ghana needed to pursue vigorous investment and trade promotion activities, e.g. trade fairs and trade exhibitions – which incidentally serve the dual purposes of selling (trade) and investment attraction as observed by Bonoma (1983), Couretas (1984) and Bello and Hiram (1986). She stressed the need for these activities to be preceded by the existence of some development preconditions in the relevant country.

In the researcher's interview with respondent ***R***, he agreed in principle with respondent ***M***'s views but lamented on how difficult it was (and still is) for Ghana and the other ECOWAS countries to attract significant foreign capital, skilled labour and high technology through FDI into the region with the existing poor levels of vital development preconditions such as infrastructure, inflation, and political stability that the region currently has.

Respondent ***R*** further blamed this on the inability of the ECOWAS Trade Liberation Scheme (ETLS) to operate efficiently and come out with positive investment and trade reforms in Ghana and other ECOWAS countries that will help build development infrastructure and which will create the "right" investment climate and help the region to attract significant FDI. One exporter interviewed, respondent ***A***, referred to the ETLS as a *"red herring."*

It can be argued, however, that once constructive trade reforms, e.g. IMF and World Bank investment, trade and macro-economic policies that Ghana is currently implementing are fully integrated throughout the country, potential foreign investors could be attracted into the region (See chapter 7). Again, not a sufficient number of these are currently operational in the country. Nevertheless, the optimism is that Ghana still has that confidence of making possible the availability of the much-needed capital, skilled labour and technology for the implementation of the product diversification programme [(Kirzner, (1973), Adam Smith (1976)] in the country through foreign direct investment, if the right investment climate is created as stressed in the literature by Balasubramanyam and Salisu (1991), Bhagwati (1985), Dunning (1973a) and Hood and Young (1979).

When, as a result of these efforts, Ghana is able to industrialise and produce manufactured goods such as computers, refrigerators, television sets, medicines, essential machines, etc. and also is able to export these goods both regionally and overseas, then the country will be taking very significant steps closer to the realisation of the increase in investment, trade and export for the country's economic development objectives.

This view was strongly supported by respondent ***J*** when, in an answer to one of the researcher's questions on trade reforms in Africa being accompanied with a fall in investment, he totally disagreed. Respondent ***J*** reiterated that what developing countries like Ghana needed most to bolster their trade, export and economic performance was significant foreign investment for industrialisation for export. He confirmed that the steady inflow of FDI into Ghana, so far, has been the direct result of the comparatively improved investment, trade and economic

reforms currently being pursued by the country, which by and large helped engender the presence of some important development preconditions, but conceded were not yet sufficient. He observed that, these trade reforms - which incorporate investment attraction activities – in Ghana were steps in the right direction.

5:3:4:1 Ghana's Trade Policy From The Exporters' Point Of View

During the researcher's interview with respondent ***A***, he expressed sadness at the difficulties his export business was experiencing. He specified areas of international transfer of money, unnecessary custom barriers - particularly among ECOWAS countries - convertibility of currency for trading purposes and bureaucracy in government departments as some of the impediments to the smooth and efficient export trade for his company. He also identified capital generation for business enlargement as one major difficulty.

However, the point has to be made that Ghana's relevant investment attraction and trade promotion institutions and organisations have worked pretty hard on these issues, and have achieved some level of success. e.g. GIPC's 972 foreign investment projects and DIC's 212 diversified / Joint Venture projects (See chapter 3). However, this is yet to impact positively on the living standards and the economic well being of the Ghanaian people.

To another question, respondent ***A*** expressed the need for government policy to be able to enhance free movement of people, goods and services as is currently the case within the EU. He also wanted government trade policy to encourage and ensure the implementation of the IMF's investment, trade and economic policies, not only in Ghana, but throughout all the 15 countries of ECOWAS, (See

Table 3-1) hopefully bringing down high inflation, stabilising national currencies, building infrastructure, improving literacy levels and, more importantly, creating the enabling environment for investment, trade, and business to operate without hindrance through political and social stability.

Both respondents ***A*** and ***Q*** described the attraction of FDI into Ghana and the ECOWAS region as *"extremely helpful."* They described such investment and trade policy as that which will enable FDI companies to "solve" their companies' investment problems, providing the capital, skilled labour and high level technology - which they badly need to facilitate the production of manufactured goods.

Production of manufactured goods - as opposed to over-dependence on primary goods - is achievable with these foreign investors as evident in East Asia. In fact, so convinced was respondent ***A*** about this trade policy, that he expressed preparedness for his company to enter into a possible Joint-Venture with any FDI company ready to take up shares in his company. Ghana's Divestiture Implementation Committee (DIC) programme is currently facilitating this opportunity for some State Owned Enterprises (SOEs) in the country.

5:3:4:2 Exploitation And Exploration Of Trade Potentials In Other Countries

During the researcher's interview with respondent ***F***, he mentioned Nigeria and Cote d'Ivoire, as Ghana's most important intra regional markets. Externally, he admitted that Western Europe dominated Ghana's trade. He cited the UK as

Ghana's closest and largest trading partner in Europe, followed by Germany, the Netherlands, France, Italy and Switzerland in that order.

The USA, he said, was Ghana's largest trading partner in merchandise trade after the UK and Germany.

Respondent ***F*** agreed with the researcher on this particular point when he stated that Ghana had a lot of trade potentials in other countries through various preferential market opportunities. He commended arrangements like the ACP-EU-Lome Convention, the Global System of Trade Preferences among Developing Countries and the ETLS, among others, as those that would enhance Ghana's export prices by giving it a competitive edge due to reduced tariff rates.

However, it can be argued that such trade preference arrangements come second to the development of economic development preconditions as well as vigorous and aggressive investment attraction and trade promotion activities to attract and win FDI into the country. For it is only when these foreign companies begin the production of manufactured goods - which could increase the production rate and export value of manufactured goods in Ghana - that these theories on trade preferences, tariff reduction,(export oriented strategies as being practised in Ghana facilitates this) etc. can be effectively implemented. These theories cannot be operational within an investment and trade "vacuum".

Again respondent ***F*** agreed with the researcher on this point when he said, *"....our plans to exploit these potentials should entail building competitive export supply capabilities and aggressive export promotion; These are the challenges facing us, and which the Ministry is doing its best to address."*

During the researcher's interview with respondent ***O***, in an answer to a question on exploration and exploitation of investment and trade among ECOWAS countries themselves, he responded that the promotion of intra African trade - particularly within ECOWAS - was very important to both the Ghana Ministry of Trade and Industry, the GIPC, DIC and the GEPC.

With regard to external trade, respondent ***F*** argued that Ghana needed to explore and exploit foreign markets, preferably different from its former colonial ruler, Great Britain. He continued to suggest that choices for trading partners could be made on the ability of each trading partner country to conduct a fair and effective trade beneficial to both parties (Kotler, 1991). Consequently, Ghana's non-traditional and manufactured products could be directed and consolidated in the other countries of North America, Europe, East Asia, Latin America and some parts of Africa other than the UK which currently is her biggest trading partner. The same can be said of Côte d'Ivoire or Senegal and France.

5:4:0 The Ghana Investment And Trade Framework (1)

During the researcher's interview with respondent ***J***, he confirmed that the building of a possible investment attraction and trade promotion framework for Ghana, had been what he had always personally wished for. He stressed the absolute need for an investment and trade framework that facilitates and provides the basis for a practical and positive way of helping to industrialise and develop Ghana. His conviction stemmed from the fact that:

(a) the precedent was set by the East Asia trading countries where carefully structured trade framework based on very sound trade reforms and backed by FDI and government intervention (See chapter 4) helped the region's countries to develop and expand the investment, trade, export, and the general economic performance of the region. The region exports manufactured goods such as cars, computers, hi-fi systems, machines, etc. to the developed countries of North America and Europe.

(b) the fact still remains that these East Asia countries were themselves, not very long ago, developing countries like Ghana and the ECOWAS countries. In fact, during the late 1950s and early 1960s, Ghana's economy, as bequeathed to her by her former colonial power, Great Britain, was believed to have been better than that of Malaysia, for example. And if Malaysia is able to adopt an investment and trade framework that can transform and expand its investment, trade, and exports transactions for economic development so successfully and significantly as they have done, then all things being equal, the probability of Ghana's chance of replicating the same policies within a similar investment and trade framework should be high.

It was confirmed by both respondents ***J*** and ***F*** that a proper investment and trade promotion framework - which will work corporately for Ghana and all the other ECOWAS countries to attract significant FDI for projects to expand manufacturing for exports within the region - will augur very well for Ghana and ECOWAS' investment, trade and economic development. Respondent ***J*** also

confirmed that well planned and structured trade promotion activities within Ghana, for example, have proved successful to some degree in attracting some foreign investments into the country. He, however, cautioned that there is the absolute need for these efforts to be complemented by the presence of vital development preconditions as discussed earlier in the chapter.

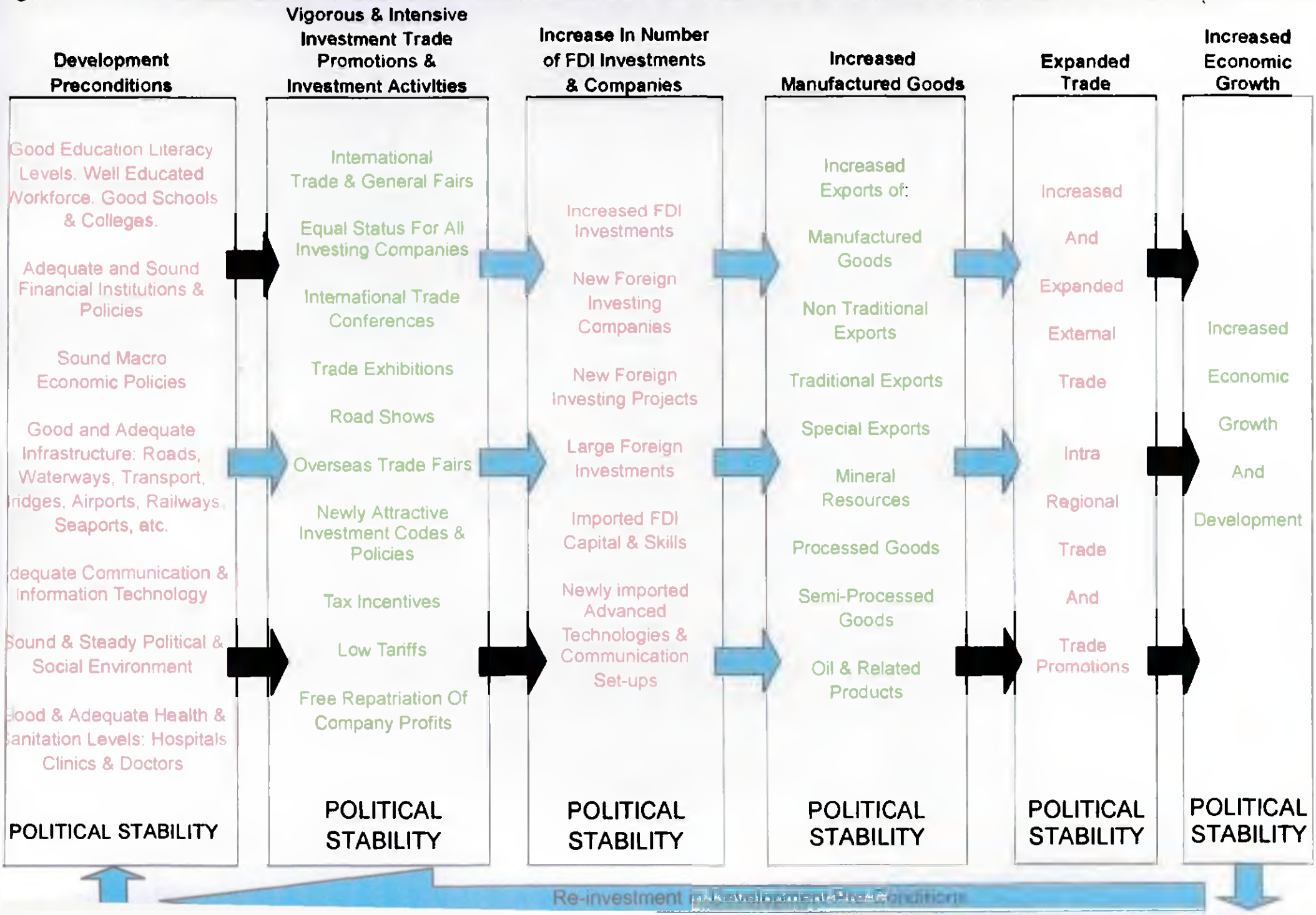
It can be argued that a well-structured and vigorous investment and trade promotion policy, forming the basis of Ghana's investment and trade reforms, and from which all ECOWAS could learn, will prove very useful indeed. This could further provide investment attraction and trade promotion within an economic development framework for Ghana, adopted and integrated into ECOWAS with a commonality of purpose for all member states, the purpose being developing and expanding investment attraction and trade promotion for economic development in the region as a whole.

5:4:1 The Ghana Investment And Trade Framework (2)

Figure 5-3 shows the recommended **Ghana Investment And Trade Framework** designed on the basis of respondents' views during the researcher's fieldwork to relevant institutions in London and Ghana, West Africa. The need, relevance and importance of such a framework is further discussed in section 5:4:2.

ig. 5-3

THE GHANA INVESTMENT AND TRADE FRAMEWORK



5:4:2 Framework Contributions To Investment Attraction And Trade Promotion In Economic Development For Ghana And ECOWAS

Throughout the researcher's interviews, the argument vigorously advanced by most respondents has been that, any credible strategy to accelerate economic development in developing countries, e.g. Ghana and the other ECOWAS countries - and for that matter the whole of Africa - must include the promotion of FDI inflows and trade into the region among its key elements as viewed in the literature by Root (1991), Clower *et al* (1966), Ahiakpor, (1990), Riedel (1991) Pomfret (1995). This in itself, it must be stressed, has to be preceded by creating the ideal investment climate by facilitating most of the preconditions as suggested by Rostow (1971), Lewis (1954), Dunning (1973a) Hood and Young (1979) and Todaro (2000), to attract FDI for development (See Figure 2-1). Sustained high rates of capital investments are needed to channel scarce resources to the most productive sectors of the Ghana industrialisation programme as observed by Ahiakpor, (1990), Hood and Young (1979) and Lall and Streeten (1977).

One effective way of achieving this will be through encouraging Ghana's economic development programme managers to adhere strongly to the framework or model of development preconditions, investment attraction, trade promotion, industrialisation for exports and economic development as shown in the *Ghana Investment and Trade Framework* in Figure 5-3.

Sustained trade, exports and investments for industrialisation would prove strongly catalytic for Ghana's short and long term objective of increased diversification in production, particularly from mainly primary products to manufactured and semi-processed ones [(Kirzner (1973) Adam Smith (1976)]. This stands to expand Ghana's supply side of goods, both intra-regionally and overseas. This expanded export base, especially with the production of manufactured goods, has the potential to serve as an "engine of growth" through consequent successful economic development for growth for the country. Again, sustained and steady attraction of significant flows of FDI to continue the stimulation of domestic private investment remains very crucial.

With such an ideal investment climate, where development preconditions are fully satisfied, Ghana's trade policy makers could concentrate on intensive trade promotional activities that sustain a steady level of FDI inflows as described above into the country (See Figure 5.3). The employment of trade fairs and trade conferences (both home and overseas), road shows, investment incentives, favourable investment laws, etc., should be vigorously continued until economic development begins to clearly surface. Hallmarks of such economic development include stability and convertibility of the Ghanaian *Cedi*, [(Dunning, (1973a) Hood and Young (1979)], improved levels of education and health, improved average standard of living of the Ghanaian people, positive and good balance of payments, GDP and GNP figures as argued by Ahiakpor, (1990).

It will seem reasonable to recommend, therefore, that these policies be adopted

and implemented not only by Ghana, but also by other ECOWAS member countries. This is because it has been demonstrated that they provide one of the greatest chances ever (evidence from East Asia – chapter 4) of attracting FDI investments into the majority of developing countries for industrialisation for exports and economic development.

In the pursuance of these policies, Ghana and the ECOWAS trade, investment and economic planning chiefs should adopt a more pro-active approach in the bid to attract FDI through the extensive and effective implementation of these policies. This may, perhaps, mean Ghana – and also ECOWAS – investment and trade policy makers should virtually go all out to 'woo' potential investors mainly via these policies, and also by literally selling ideas such as the "Ghana Free Zone" and the "Ghana Gateway" programmes to these potential investors.

5:5:0 Development Of Hypothesis

5:5:1 Development Preconditions

As discussed in chapter 2, it matters little how much information one possesses about development if we have not grasped its inner meaning. Also, development theory by itself has little value unless it is applied, unless it translates into results and unless it improves people's lives.

Authors such as Rostow (1971) and Todaro (2000) have shown the accomplishment of investment, trade and economic development linked to the availability of development preconditions, which in turn is linked to Foreign Direct

Investment attraction, particularly in developing countries. Rostow (1971) was of the opinion that it was possible to identify all societies and their levels of economic development and growth as lying within one of five categories: the traditional society, *the preconditions for take off into self-sustaining economic development and growth*, the take off, the drive to maturity and the age of high mass consumption (See chapter 3).

Rostow's (1971) *"preconditions for take off into self-sustaining economic development and growth"*, for example, can be argued to be not merely descriptive. It is not even merely a way of generalising certain factual observations about the sequence of development of modern societies. It has an inner logic and continuity complementary to the successful creation of an attractive investment climate, as observed by Dunning (1973a) and Hood and Young (1979), able to attract sufficient FDI into developing countries like Ghana and other ECOWAS countries. Moreover, the precedence of these development preconditions for "take-off" and FDI is extremely crucial to any meaningful investment, effective trade and export promotion activities, particularly in an African LDC like Ghana.

The above discussion on the significance of preconditions for development leads to the assertion that the presence of development preconditions in economic development in an African LDC like Ghana facilitates the attraction of significant FDI into the country. Consequently, the following hypothesis is put forward:

Hypothesis 1: Development preconditions in Ghana influence the attraction of increased Foreign Direct Investment into the country.

5:5:2 FDI In Developing Countries

Few developments have played critical roles in the investment, trade, export, and economic development of developing countries than FDI and its associated capital flows, technology transfers and skilled labour. An FDI company or corporation is simply that enterprise that conducts and controls productive activities within a selected country of its choice. Developing countries' participation in international production was, until not long ago, mainly to host foreign affiliates of Trans National Companies (TNCs) which have been increasingly welcomed as a means of establishing and strengthening an industrial base for economic development.

These enterprises, mostly from North America, Europe and Japan (but also increasingly from newly industrialising countries like South Korea, Taiwan, Malaysia and Brazil) present unique opportunities for industrialisation for increased production of manufactured goods for export. In the past two decades, firms from some of the newly industrialising countries like Malaysia, Korea, Japan and Singapore have been investing abroad, giving rise to international production themselves (UNCTAD:WIR, 1999).

5:5:2:1 Technology Learning And Development

As discussed in Rostow's (1971) literature in chapter 2 of the thesis, technology has always been important to economic development, particularly in developing countries. The current technological context – which can be referred to as "technological paradigm" and which is critical to development – has been rapidly transforming all productive systems and facilitating globalisation in most developing nations.

In most modern activities, competitiveness entails new and more rapid production innovation and integrated production systems among regions. This can be referred to as the "new competition". The leaders of technological change, (most of them FDI / TNCs), apart from heavily investing in innovation, are moving their technological assets around the world to match them to immobile factors (mainly in developing countries), entering new alliances and reorganising production in these countries.

5:5:2:2 Employment Quality And Skills For Development

Employment and the quality and skills at the disposal of workers are linked to development in several ways. Labour and human resources with skills and knowledge are indispensable factors of production in all economic activity. The role and impact of FDI in these respects, particularly in developing countries varies according to the type or motivation of FDI, the industries in which FDI invests, the strategies FDI adopts and host country conditions (UNCTAD: WIR, 1999).

While FDI of all types involves employment in host countries, some FDI is motivated specifically by considerations directly related to the employment of skilled labour. Resource-seeking and efficiency-seeking FDI in manufacturing and services is often made with the specific objective of accessing low-cost labour for labour-intensive production and industrialisation, particularly in developing countries.

5:5:3 Industrialisation For Boosting Exports

Countries engage in international trade for a variety of reasons. Exports in particular are means to generate the foreign exchange required to finance the import of goods and services; to obtain economies of specialisation, scale and scope in production; and to learn from the experience in export markets. In a globalising world like the one we live in today, export success can serve as a measure for competitiveness of a country's industries [(Seringhaus (1987b, Salvatore (1989)].

However, LDCs such as Ghana and the other ECOWAS countries may not be able to provide the capital needed to improve exports in a globalising world, unless they receive help from FDI. But FDI to most developing countries – particularly in the LDCs of Africa – is very little and this frustrates many of these LDCs. At most UNCTAD conferences on Trade and Development, many leaders of developing countries severely criticise the developed countries for failing to help the developing countries to achieve growth. They accuse the developed countries of withholding vital FDI projects that could help these countries to

industrialise and produce manufactured goods for export to improve their economies and standards of living.

The comparative advantage (Ricardo, 1817) of most developing countries lies traditionally in primary commodities and unskilled-labour intensive manufactures. But LDCs such as Ghana and the other ECOWAS countries need to upgrade their primary and labour intensive exports into higher value-added items, and they have to move into new, more advanced, export oriented activities. These require greater inputs of skill and technology. Countries, particularly LDCs such as Ghana and the ECOWAS countries, can attain these vital objectives possibly through the following:

(i) **consistent** and increased trade promotion activities (e.g. consistent participation in overseas trade fairs) Huynen (1973)

(ii) upgrading industrialisation for the production of manufactured goods' levels through imported skills, capital and technology and FDI making its own network as conduits for trade. This also requires **consistent** trade promotion activities as discussed in the literature by Spencer (1992), Ahiakpor (1990), Riedel (1991) and Pomfret (1995).

Consequently, the following hypothesis is put forward:

Hypothesis 2: Inconsistent trade promotion activities in Ghana negatively influence increased Foreign Direct Investment attraction into the country

The two hypotheses developed in this chapter are tested in chapter 7.

5:6:0 Rationale Of The Methodology

This method of research was chosen to be able to define the *Ghana Investment and Trade Framework* for economic development objectives and also to develop an approach of achieving them. The method also was to help generate hypotheses to guide the study and also to identify the variables that would be employed in the empirical analysis in the latter part of the research.

Secondly, it is not always possible to use fully structured or tormal methods of correspondence to obtain information from respondents in a region like Africa. In their article, *"Getting In, Getting On, Getting Out and Getting Back,"* Buchanan, Boddy and McCalman (1988) outlined the conduct of fieldwork interviews in organisations in European and American institutions, and some of the difficulties encountered. This study, in explaining why it chose to conduct face-to-face interviews during the fieldwork in Ghana, West Africa, will be contributing the African perspective to this research article in the form of problems encountered when doing research in African organisations, based on the researcher's fieldwork experiences during his research interviews in West Africa.

During the researcher's interviews with some government officials in Ghana, it became apparent that although most officials were happy to talk to him, the enthusiasm that was shown in a small number of circles was not all that positive. This further appeared to have – to some extent - negatively influenced the level of co-operation the researcher received with this small number of persons while

trying to arrange interviews with prospective respondents within some of the institutions.

The researcher's impression was that this small number of persons within some of the private and public institutions and organisations increasingly felt that they and their staff had little or no time to devote to 'non productive' academic research activities, which are of no direct and immediate benefit to them as individuals.

An example of this was when a trade official at the Ghana Ministry of Trade and Industry told the researcher to go back to London and write a letter to the Ghanaian Minister for Trade and Industry seeking an interview with him (trade official) when the researcher arrived at his office for a scheduled interview. The researcher did not oblige. Only minutes after declining to grant the researcher an interview, this official's next in command - who the researcher happened to know personally - granted him a very good interview.

5:6:1 'Getting In' In Africa

Buchanan, Boddy and McCalman (1988), based on their European and American experiences, among others, recommended the use of friends and relatives where possible to secure interviews in organisations. The researcher's experience in Ghana was sometimes in line with these recommendations. At the Ghana Ministry of Finance and Economic Planning, one senior Officer (in fact the senior PRO) happened to be the researcher's contemporary in primary school. The co-operation accorded the researcher by the Public Relations Officer (PRO)

and his colleagues was extremely helpful. Most of the information required by the researcher was made available within minutes. Where the researcher did not meet friends e.g. former schoolmates, colleagues, etc., he sometimes had to chase officials or wait for hours to speak to them.

There is also the problem of respondents' reluctance to provide information. In Ghana, the researcher's fieldwork experience made him realise that where goodwill and friendliness have been accorded respondents, reservations about giving out information do not matter so much to the respondent anymore. In fact, some respondents gave the researcher additional documentary evidence to back up some of the information given to him during his interviews.

The researcher's fieldwork in Ghana made him uncover the occasional *"pull him down"* attitude to both foreign and local research students. The title "Ph.D." happened to send a strong positive connotation to most of the institutions and organisations visited. However, a very small number of persons in some institutions and organisations visited reacted negatively to the idea of a "Ph.D." research interview. They exhibited some degree of reluctance to co-operate fully with the researcher. They even generally branded all research fieldwork as "waste of time."

Such non co-operative attitudes to the researcher are intended to either frustrate or discourage him from continuing comfortably with the fieldwork. But as will be seen in the comments in section 5:6:4, this attitude does not augur well for the

investment, trade, and the general development aspirations of a developing country looking outside for help with investment. In this particular instance, it is Ghana; but what is as true as it is embarrassing is that, to a large extent, these non-co-operative attitudes abound in many institutions and organisations throughout the whole of Africa.

This "pull him down" attitude appears to be pretty common in a small number of government organisations and private institutions within Africa as a whole. Such non co-operative attitudes by some of the government officials and organisations in Ghana perhaps proved the researcher wiser when he preferred the on-the-spot face-to-face interviews strategy for this research to the sending out of structured questionnaires, which may be thrown into the waste paper bin when they arrived on government officials' desks.

It has to be pointed out, however, that overall, the overwhelming majority of respondents in Ghana were extremely co-operative with the researcher during his field study. Most respondents were of good nature, full of humour and extremely friendly and ready to help.

Malhotra (1996) very much complements the on-the-spot face-to-face interview strategy used by the study when he quoted Tom McCarthy, managing director of *Vista Marketing Research of Oakland* in the USA as saying, *" If you are willing to take time and energy to talk to thirty people for an hour on one-to-one basis, you get a complete understanding of the thought process of thirty consumers."*

5:6:2 'Getting On' In Africa

Buchanan, Boddy, and McCalman, (1988) again argued that "getting on" with respondents was fundamental to the quantity and quality of data collected. In Ghana, West Africa, the researcher found out that permission from senior management, letters of introduction and academic affiliation do not on their own help to achieve the sustained levels of co-operation a researcher may require in the region. Evidence from the researcher's fieldwork experiences within the West African region revealed that sustenance of levels of co-operation of research in some African organisations and institutions very much depended on "whom you know" rather than "whom you are". Relatives and friends, (Buchanan, Boddy, and McCalman, 1988) motivated most respondents more than anything else.

Also, the general morale and economic disposition of the particular individual (respondent) also affected the level of co-operation provided.

Where positive criteria had been satisfied, there were high levels of co-operation in all the areas of the research within the particular organisation or institution. In other words, the researcher 'gets on' pretty well with respondents with the particular organisation.

During the fieldwork in Ghana, the use of a combination of relatives, friends and sheer determination to create an enabling environment by the researcher encouraged most of his respondents to make conscious efforts to:

(a) understand the aim of the study and feel that they were able to contribute to it as best as they could

(b) feel and accept that the researcher was trustworthy and had a genuine desire to listen to what they had to say

(c) give the researcher maximum co-operation

The researcher was also conscious of Stephenson and Greer's (1981) argument that, researchers must be alert to the problem of ignoring data because of the 'ordinariness' of the contexts and conversation in which it arises.

This may well be the European and American perspectives. In Africa, in the researcher's fieldwork experience, this argument - which according to Stephenson and Greer (1981) may mean that close relationship with respondents corrupt the data they disclosed - assumed the opposite. The researcher, as a result of his close relationship with some of the respondents, attained rich information based on mutual trust and respect, when the opportunity was given.

One of the researcher's experiences during his fieldwork interviews in Ghana was that he found himself becoming involved in conversation about the whole of Africa and Ghana, during which he also told the particular respondents of what happens in the EU. This departure from the regular unstructured interview guidelines gave the researcher the chance of creating that enabling atmosphere in which respondents felt at ease and gave out more in-depth information relating

to the subject matter.

The lesson to be learnt here by future researchers going to African organisations is that you get on well with the respondent when you (the researcher) win his or her confidence and trust by getting closer. Again this evidence very much vindicates the researcher's choice of face-to-face interviews during his fieldwork for this study. Getting closer to "get on" well with respondents, in the researcher's experience helps to minimise the incidence of respondents misleading the researcher or distorting data.

5:6:3 'Getting Out' / 'Getting Back' In Africa

The author's experience in the fieldwork in West Africa revealed that once you 'clear' your way into 'getting-in' the organisation, and "getting-on" very well with respondents, "getting out" and "getting back" posed very little problem. In fact, what happens next is that the researcher succeeds in establishing a new friendship with respondents within these organisations; and these respondents then become people with whom the researcher can subsequently correspond at any time when he goes back to his or her research base.

It has to be pointed out, however, that "influencing" one's way through to "getting in" and "getting on" in organisations in Africa is not the best of procedures by any standards. It perhaps sets a precedence of making "offers" or being a "relative" or "friend" to be granted access for interviews in organisations, for example. It has to be stressed, however, that only a tiny number of respondents were found to put forward preconditions for interviews in the researcher's experience. In as

much as this procedure is not desirable, the fact still remains that the attitude had been there before the researcher travelled to the region for his fieldwork, and that is how it looked to be for the foreseeable future, at least.

The face-to-face approach to the interviews further provided the researcher with the ideal opportunity to:

(a) gather first hand relevant information from the most appropriate source

(b) identify as many areas of concern and loopholes as possible relating to the research problem

(c) ask direct questions leading to more detailed answers which greatly enhance an in-depth analysis of the problem

(d) overcome red tape, bureaucracy and foot dragging on behalf of the reluctant officials of some of the organisations providing information

(e) talk directly to manufacturers and exporters, who are very much involved in the day to day export and trading activities within the country

5:6:4 "Getting In, Getting On, Getting Out and Getting Back" - Implications For Ghana In Africa

The degrees of positive impacts of foreign based researches on economic development in Africa almost always stand to be more beneficial to the continent's economic development and cannot be underestimated.

The suggestion of Buchanan, Boddy, and McCalman, (1988) outlined some difficulties with doing research in organisations within Europe and North America. They discussed difficulties of getting into some of these organisations to conduct research. Just as they suggested using friends and relatives, where possible, to gain access to interviews in organisations, so has been the researcher's experience during his fieldwork in Ghana.

It can be argued that Ghana as a developing country with investment, trade, and economic development aspirations should endeavour to rid all of its institutions and organisations of any sort of bureaucratic red-tapism and non-co-operative attitudes to researchers studying the country's economic development problems. The researcher does not have to be a relative or friend in order to access relevant information to accomplish his or her research. Undoubtedly, a successful research into the investment, trade, export, and economic development objectives in Ghana, for example, puts the country in a positive state towards an effective way forward in its quest for ways and means of improving its economic growth and development.

It is imperative, therefore, that government intervention in Ghana, for example, is designed to encourage government officials and private institutions to grant easy access to researchers conducting research in all fields of study. Such research work may help towards finding solutions to the country's development problems. With regard to the "pull-him-down" attitude discussed in the previous section, Buchanan, Boddy, and McCalman, (1988) did not observe this in Europe or

North America. The research in Ghana for this study did find some traces of this unfortunate attitude. Unfortunate in the sense that, as long as this attitude persists, it will do very little to help Ghana in identifying some of her investment, trade, and economic development problem areas for possible remedial action to be initiated in the country. Also as a consequence, the development of these vital economic areas for economic development in the country could suffer a great deal. e.g. decreased inflow of foreign investments into the country, lack of interest in Ghana's ERP, etc.

Ghana's relevant institutions and organisations for the ERP should be seen to be "getting on" well with researchers. An "open door" attitude of co-operation and assistance to researchers could create and send strong signals of the transparency, honesty, determination and friendliness with which the country wants to welcome all foreign investors into the country for business. Again, this "open arm" transparency and co-operative attitude could go a long way to inspire confidence in potential foreign investors to Ghana. Signals of non-co-operation would be disastrous to the county's FDI attraction hopes.

Stephenson and Greer (1981) cautioned researchers about the ordinariness of data when researchers seem to get 'too close' to the respondents. While this might form part of their findings in Europe and America, clearly, this was not the experience of the researcher in Africa. In Ghana, the closeness of the researcher to respondents facilitated quality in-depth interviews that satisfied most of the researcher's areas of questioning.

Furthermore, once this 'close' interviewer and interviewee relationship is consolidated, the researcher finds little problem in corresponding with respondents when he or she arrives back to his or her research base.

Finally, from the researcher's observation in Ghana, the country's investment trade, exports, and economic planning policy makers appear to have recognised the importance of research – particularly foreign research – in helping the country's efforts towards economic development. Co-operation in over 99% of the institutions and organisations visited in Ghana had been very good, particularly from senior "technical" cadres who have had the benefit of further education. Other ECOWAS countries – and indeed all Africa - would do well to try to replicate this precedence set by Ghana.

5:7:0 Validation Issues

5:7:1 Sources And Data Limitation

The primary data source for the study's objective of developing the *Ghana Investment And Trade Framework* came from interviews with respondents of varying backgrounds in London and West Africa.

Secondary data for the empirical investigation into the relationship and influence between Ghana's development preconditions and FDI attraction into Ghana came from varied institutions, published *Journal* articles as well as statistics officially published by relevant agencies as described earlier in this chapter.

Obtaining data from Ghana and her agencies abroad was generally less cumbersome. Academic colleagues at the University of Ghana were quite helpful. Data from UNCTAD, the IMF and the World Bank were also relatively easy to collect. Staff at these World Bodies were extremely co-operative and helpful, particularly in Washington DC in the United States of America.

It is essential to note, however, that the data set used in this study, both primary and secondary, would possibly have had the same limitations that the World Bank or the IMF, or for that matter, other international agencies generally encounter, usually as a result of:

(a) narrow definitions and possible differences in statistical accounting concepts and methods

(b) inadequate statistical coverage of sub-national governments

The problem of data limitation in developing countries in general has been substantially recognised and acknowledged, documented and extensively discussed by the World Bank and the IMF in their various Annual Reports such as World Bank, (1991 and 1994),and UNCTAD-WIR (1998 and 1999).

Notwithstanding these limitations, the cross - sectional time series data compiled by these institutions for developing countries have proved to be one of the best sets of statistical data available for investment, trade and economic analysis. It is perhaps always advisable, however, to exercise some degree of caution in the use of these data in comparative analysis and drawing generalisation and conclusions.

Most secondary data used are reported to the best and nearest accurate figure. A very strong effort was made to avoid missing value periods in the data set, especially given the problem they can cause in the statistical estimation mechanism.

5:8:0 Conclusion

This chapter has extensively described and discussed the research methodology and design of the study. It describes the data requirement and collection methodology - mainly face-to-face interviews with respondents in London and West Africa. Secondary data gathered from international organisations were also used for the study. Three separate interviews held with Sabary Enterprises (Gh.) Ltd. - a major exporter in Ghana - the Principal Commercial Officer, Exports Division, Ghana Ministry of Trade and Industry as well as the Ghana Trade Commissioner to London are attached in Appendices 6, 7 and 8.

The African perspective of doing research in organisations has been expressed in this chapter. By this, the study aims at contributing the African perspective to the existing mass knowledge of the European and American ways of doing research in organisations.

The research process has been discussed, steadily moving from one stage of the study to the other (See Figure 5-1). It stresses the need and reason for understanding the rationale behind undertaking a research seeking to help, develop and expand the investment, trade and economic development of

developing countries such as those of Ghana, ECOWAS and Africa, using as a basis, the success of a similar process by the advanced developing countries in East Asia. The link between the research objectives, literature and theories has also been presented diagrammatically in Figure 5-2.

The hypotheses developed and proposed in the chapter have been discussed, and the variables employed described.

The *Ghana Investment and Trade Framework* developed in the chapter has also been discussed, and the benefits that the vigorous implementation of the framework will accrue to Ghana and other ECOWAS countries, have also been clearly stated.

The research methodology used for the study has been justified, and its impact on the relevant responses clearly stated. The literature and sources of information and data used in the research have been clearly indicated and used to support the methodology process, and the framework for the collection and building of the research database.

In the next chapter, chapter 6, the study discusses the first set of its findings in terms of Ghana's trade and economic structure and performance as well as the prevalent investment climate.

Chapter 6

Findings: Economic And Trade Structure And Performance In Ghana; Evaluation Of Investment Climate

6:0 Introduction

This chapter presents findings on Ghana's current economic and trade structure as well as their performance levels for twenty-one years (1976-1997). The chapter also discusses the country's investment climate as discussed in the literature by Dunning (1973a) and reiterated by Hood and Young (1979).

Section 6.2.1 discusses the agriculture sector of the economic structure of Ghana. Section 6.2.2 discusses the industrial sector of the economic structure of Ghana. Section 6.2.3 discusses the services sector of the economic structure of Ghana. In section 6.2.4 the economic performances of Ghana during 1997 and 1998 are reviewed, and important changes that need to be made to enhance the creation of an enabling environment for foreign investment attraction and growth are also discussed.

Section 6.3.discusses Ghana's trade structure and performance for twenty-two years in terms of Ghana's pattern and direction of trade. Ghana's trade balance in 1998 has also been discussed.

In section 6.4, the chapter reviews how Ghana's economic and trade structure and performances over the period relate to the country's investment climate.

6:1 Background

As part of Ghana's Economic Recovery Programme (ERP) first launched in 1983, the government of Ghana – with donor support mainly from the IMF and the World Bank – instituted economic reforms to reverse the decline of the economy which had virtually collapsed under the strain of years of mis-management, unnecessary controls and licensing. As discussed in chapter 3, the economy of Ghana continued to decline into the early 1980s. Real per capita GDP fell and the domestic savings rate fell from over 12% in 1972 to less than 3% in 1981 (Oduro, 1995).

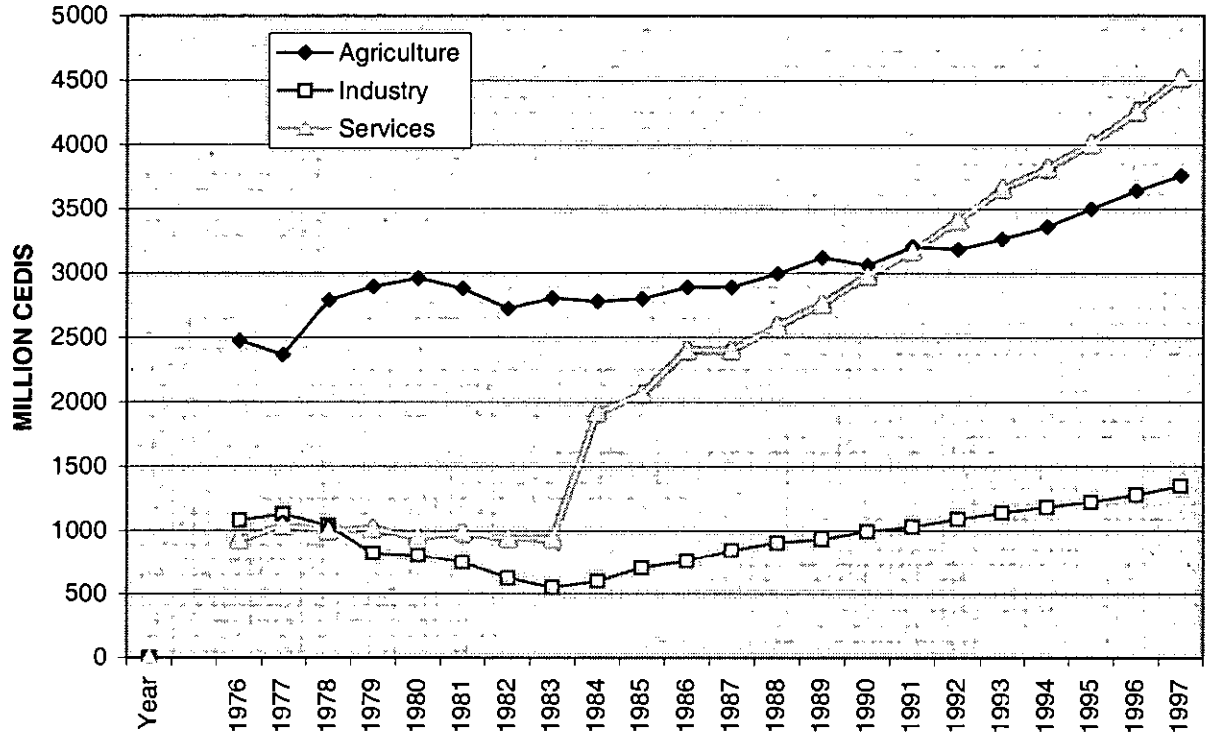
The key element of Ghana's ERP and the on-going attempts to stabilise the economy had largely been liberalisation in investment, trade, free market and industrialisation policies. This has, to some extent, reflected positively on the major results of Ghana's economic reforms over the past 15 years (after ERP in 1983) in which there had been a 5% average annual GDP growth rate, expansion of trade and the recognition of the private sector (e.g. FDI) as the principal engine for augmenting the manufacturing base of the country in order to enhance export, trade, economic growth and development in the country.

However, as cautioned by Ahiakpor (1990) and Clower *et al* (1966), a country experiencing a healthy economic growth of, say, 5% annual per capita income growth or more may yet be regarded as not experiencing development if most of the economic assets are owned by a small proportion of the population, and the quality of life for the majority of its people does not improve. Ghana's efforts at improving the well-being of its citizens via improved economic growth and development can be said to be still on-going. The economic growth rates, however, fluctuate too often, as does the country's per capita income.

The contributions of the various sectors of the economy are discussed in the subsequent sections of this chapter. Again, the level of FDI employed in the development process needs to be further augmented if the country's industrial base is to expand with increased manufacturing, exports and trade for economic development and growth as argued by Ahiakpor (1990) and Clower *et al* (1966).

In 1992, democratic governance – which had been forcefully aborted in 1972 and 1981 respectively - was restored to the country and people of Ghana. An elected parliamentary democracy has been in place in the country since 1992. With the strengthening of this democratic institution and the deepening of democratic culture and practices, consensus building among all stakeholders in civil society has provided a platform for the determination of key elements of economic policy.

Figure 6-1 Contribution Of Agriculture Industry And Services Sectors To Ghana's GDP



6:2:0 Ghana's Economic Structure And Performance

The structure of Ghana's economy is shaped by three principal sectors:

(i) the **Food and Agricultural** sector: This is also known as the primary sector which is predominantly agriculture extractive

(ii) the **Industrial** sector: This is the secondary sector which deals predominantly with the manufacturing of processed, semi-processed and manufactured goods

(iii) the **Services** sector: This is the tertiary sector, which involves tourism, financial, and tele-communication services, etc.

As can be seen in Figure 6-1, the pre-1983 (ERP) performances of all three sectors of the economy were very poor indeed. Only from 1983 (the year Ghana's ERP commenced) was some improvement seen in the performances of these services. The services sector performed well, rising from a GDP contribution to the Ghanaian economy of 932.2 million *Cedis* in 1976 to 4,519.7 million *Cedis* in 1997. Agriculture also rose from a contribution of 2,476 million *Cedis* in 1976 to 3,761.5 million *Cedis* in 1997. It was the services sector that contributed most to the GDP of Ghana over these years. Industry's contribution rose from 1,079.9 million *Cedis* in 1976 to only 1,350.6 million *Cedis* in 1997 (ISSER, 1999 and 2000).

The weak industrial base as reflected in the graph in Figure 6-1 and the figures above show that Ghana needs to strengthen its industrialisation base as has been discussed and suggested in chapter 4 earlier in the thesis. As argued by Ahiakpor (1990), Dunning (1973a) Lall and Strreten (1977) and Hood and Young (1979), FDI could be sought in significant quantities by Ghana to boost its industrial base. To do this, as has been theorised by Rostow (1971), Todaro (2000), and Lewis (1954), some basic important development preconditions need to be strengthened in Ghana to facilitate the significant attraction of FDI for industrial expansion in the country.

The performances of the individual sectors are discussed in the chapter.

Table 6-1 Contribution Of Agriculture Industry And Services To Ghana's Growth Rate (%) (1976 – 1997)

	Agriculture	Industry	Services	Ghana
YEAR	GDP Growth Rate	GDP Growth Rate	GDP Growth Rate	GDP Growth Rate
1976	-4.6	4.4	11.7	0.38
1977	18.0	-7.8	3.9	4.7
1978	3.8	-21.0	1.6	-5.2
1979	2.2	-1.9	-6.7	-2.1
1980	-2.7	-6.7	3.9	-1.8
1981	-5.4	-16.9	-4.5	-8.9
1982	3.0	-11.9	-0.8	-3.2
1983	0.9	8.9	105.4	38.4
1984	0.6	17.6	7.5	8.6
1985	.03	7.5	16.4	8.1
1986	.03	11.4	4.2	5.3
1987	.03	11.5	9.4	7.1
1988	3.6	7.2	7.8	6.2
1989	3.6	2.6	6.7	4.3
1990	-2.0	6.9	7.9	4.3
1991	4.7	3.7	6.3	4.9
1992	-0.6	5.8	7.7	4.3
1993	2.5	4.3	7.7	4.8
1994	2.9	4.3	4.4	3.9
1995	4.2	3.3	4.9	4.1
1996	4.0	4.2	6.3	4.8
1997	3.3	5.7	6.7	5.2
1998	5.3	2.5	6.0	4.6

SOURCE: Ghana Statistical Service: Quarterly digest of Statistics (Various Issues)

Table 6-1 shows the pre-1983 ERP growth-rate of all the three sectors of Ghana's economy as not encouraging. As shown in Table 6, it was from 1983 that some improvement was seen in the performances of these services. Again the services sector performed well, rising from a growth rate of 3.9% in 1977 to 6.7% in 1997. Agriculture also rose from - 4.6% in 1976 to a poor 3.3% in 1997.

The industry sector's growth rate rose from 4.4% and travelled through really bad yearly performances - having had negative growth rates in the six years to the ERP in 1983 – achieving a 5.7% rate in 1997 (ISSER, 1999 and 2000).

Again the impact of these rates are not helpful to the improvement of the quality of life and well being of the citizens of the country. Poverty as discussed by Stewart and James (1982) still prevails widely in the country. Schools, universities, hospitals, roads and transportation - the availability of, which is an important hallmark for economic development [(Ahiakpor (1990), Clower *et al* (1966)] – are yet to be improved. Such growth figures are also not helpful to income generation and distribution for the country as observed by Meier (1984). It is important that the growth rates of the Ghanaian economy improve and impact positively on the standard of living of the people (Meier, 1984); and FDI could help in this regard to help boost the production levels of manufactured goods for export if the right investment climate is generated. New methods and strategies, supported by new technologies as discussed in the literature, need to be employed by all sectors of the economy in production and manufacturing in the country.

The next section of the chapter discusses the three main sectors of the structure of Ghana's economy individually.

6:2:1 The Food And Agriculture Sector Of Ghana's Economic Structure

6:2:1:1 Contribution

The agricultural sector of Ghana's economic structure contributes annually to several important variables of the country's economy. These include the GDP, foreign exchange earnings and tax revenues, among others. Before Ghana's ERP in 1983, the sector's contribution to the country's economy exceeded the contributions of the other two main sectors, namely industry and services as shown in Figure 6-1 and Table 6-1. Although the services sector's contribution rose dramatically a decade after the launch of the ERP to overtake the agriculture sector, agriculture remains the main economic mainstay ot the Ghana.

6:2:1:2 Performance Of Ghana's Agricultural Sector Of The Economy

Before Ghana's ERP in 1983, the general performance of the country's agricultural sector was poor but stable. In 1983 itself, the country's agricultural sector experienced its lowest level of performance. But in 1984 – a year after the commencement of the ERP – the recovery of the performance of the country's agricultural sector and sub-sectors started to improve albeit at an inconsistent pace. In 1998, the growth rate of Ghana's agricultural sector was the highest since 1984 with a growth rate of 5.3%.

This relatively high growth rate of the agricultural sector of Ghana's economy in 1998 contributed a substantial boost to the national growth rate of 4.6% the same

year as the growth rates of the other major sectors of the economy (industries and services) declined by 3.9 and 0.5 percentage points respectively as compared with 1997.

The comparatively better performance of the agricultural sector in 1998 was also largely due to the high performance achieved by the cocoa sub-sector, which grew about 11% during the year. However, as observed by Ahiakpor (1990) and Meier (1984), these contributions usually fail to positively impact on the income generation and distribution of the LDCs. It can be argued that this is due to the predominantly 'raw material' nature of the goods produced by the sector. Were there genuine efforts made by Ghana to attract FDI to boost manufactured production? Are there vital development preconditions put in place to attract foreign investors into the country? If these arguments are substantiated, then, as argued by Kirzner (1973) and Adam Smith (1976), FDI needs to be sought in significant numbers to help transform these 'raw materials' into useful forms of goods and services (processed and manufactured goods) for export and domestic consumption. Such goods when exported command better foreign exchange earning potentials than the 'raw materials' as opined by Brown, (1993).

6:2:1:3 Specific Agriculture Sector Performances

6:2:1:3:1 Staple Crops

Ghana's major staple crops comprise of:

(i) ***starchy crops***: these are cassava, yam, cocoyam and plantain

(ii) ***cereals***: these are maize, rice, millet, and sorghum

The total output of the four starchy crops cultivated in the country maintained a steady upward trend that began in 1995. In 1998, the aggregate output of about 13.4 million metric tons of starchy crops was about 3% higher than in 1997. The output of each of the major starchy crop was also increased in 1998 over their respective levels in 1997. The largest increase was for yam with 11.8% followed by cocoyam 2.7%, plantain 1.9% and cassava increasing marginally by 0.3% (ISSER, 1999 and 2000). The question can be asked again whether sufficient FDI was sought to diversify and improve value-addition to these crops?

The total output of the four major cereals grown in the country also increased from 1.7 million metric tons in 1997 to 1.8 million metric tons in 1998, showing an increase of about 8.1%. The output of each of the major cereal crops also increased in 1998 over their respective levels in 1997 except maize whose output decreased marginally by 0.6%. The output of rice increased the largest by 42.6%, followed by millet 16.5% and sorghum 10.9%. But again the need for diversification – with the help of FDI – for value addition to these raw materials is stressed. The production of these primary agriculture products can provide food tor Ghana's people. But as Brown (1993) and Huynen (1973) argued, they make

very little contribution to the country's economic growth and development as described in the literature by Todaro (2000), Balasubramanyam and Salisu (1991), Ahiakpor (1990), Clower *et al* (1966).

6:2:1:3:2 Export Crops

Ghana's major export crops comprise of:

- ***traditional export crops***: this is predominantly cocoa
- ***non-traditional export crops***: these are mainly cashew nuts, cotton-seed, and kola nuts.
- ***other major agricultural commodities***: these include shark fins, pawpaw, pineapples, lobsters/shrimps, frozen tuna, frozen fish, processed fish, mangoes and vegetables / condiments.

Cocoa remained the major export crop of Ghana in 1998. As shown in Table 6-2, the output of cocoa was 409,000 metric tons for the 1997/98 season, showing about 29% over the level in the previous season. The output in 1997/98 was the highest for 22 years. This output contributed about 15.3% to the world output and placed Ghana in the world cocoa producers' second position after Côte d'Ivoire, which remained the leading cocoa producer.

Table 6-2 Ghana's Cocoa Output And Proportion Of World Production: 1990/91 – 1997/98

Period	Output 000 Metric Tons	Percentage Seasonal Change	Percentage of World Output	World Ranking
1990/91	293.4	0.7	11.6	3rd
1991/92	242.8	-17.2	10.6	3rd
1992/93	312.0	28.5	12.9	2nd
1993/94	254.7	-18.4	10.6	4th
1994/95	309.5	21.5	13.0	2nd
1995/96	403.9	30.7	13.8	2nd
1996/97	317.0	-21.5	11.9	3rd
1997/98	409.0	29.0	15.3	2nd

SOURCE: Ghana Cocoa Board, Accra; ICCO Newsletter , No. 13, February 1998

A significant observation in Table 6-2 is that, it does not show any percentage of Ghana's cocoa production transformed into value-addition export cocoa products. There is the absolute need for Ghana to accomplish this, preferably with the help of FDI attracted into the country.

The total number of agricultural commodities that featured in the non-traditional exports in 1998 increased from 68 in 1997 to 72, an increase of 5.9%. The total number of exporters of the non-traditional agricultural commodities, however, decreased from 1,654 in 1997 to 1,334 in 1998, a decrease of about 18.7% (ISSER, 1999 and 2000).

Livestock and poultry in Ghana's agriculture sector of the economy increased in 1998 as compared with 1997 except pigs whose population continued to decline

in the 1990s. In 1998, the population of pigs was 6.1% lower than in 1997. The population of cattle and sheep increased marginally by 0.8% and 0.9% respectively, goats increased by 2.1% and poultry by 4.8% (ISSER, 1999 and 2000). These are relevant to the thesis focus in that they constitute an important source of meat supply for the whole country. Where performances in these areas are poor, foreign exchange is used to import meat from outside the country. Putting together vital development preconditions to attract FDI would help augment the quality and quantity of value that can be added to these products for domestic use and possibly for export.

The total fish catch from the Ghana waters continued the downward trend that began in 1997. The total fish catch in 1998 was about 5.9% lower than it was in 1997. The decline in the total fish catch came from both the marine and inland sources. The catch from the marine source declined by about 5.4% while there was a 7.9% decline in the catch from the inland water sources. But again as Brown (1993) and Huynen (1973) argued, these "raw materials" make very little contribution to the country's economic growth and development as described by Ahiakpor (1990), Clower *et al* (1966). There is, therefore, the need for diversification possibly with the help of FDI as suggested by Kirzner (1973) and Adam Smith (1976).

6:2:1:4 Observations On Ghana's Agriculture Structure And Performance

Apart from cocoa, which relatively performed better in the years 1992/93, 1994/95, 1995/96 and 1997/98 the general performance of the primary commodities of the agriculture sector leaves much to be desired. Crops and livestock performances have been on the decline.

It is important for Ghana's agriculture sector to increase performances in these areas and also to diversify into semi-processed and processed products. This is relevant to the thesis focus in that shortages in the supply of staple crops – which most of the population largely live on – would prompt the country to import these crops thereby loosing foreign exchange that could have helped in the strengthening of Ghana's development preconditions as argued by MacDougall (1960).

Also, an increase in the performance of the agriculture sector in these commodities other than cocoa could earn more foreign exchange (MacDougall, 1960) for the country through exports to other ECOWAS countries, for example. Cocoa being Ghana's highest foreign exchange earner in the sector should be accorded all the necessary attention to avoid negative seasonal output changes as shown in Table 6-2. As suggested by Kirzner (1973) and Adam Smith (1976) cocoa beans could be transformed into chocolates, cocoa-butter, beverages and other consumables for export and domestic consumption with the help of FDI if the right development preconditions and investment climate as suggested by Rostow (1971), Lewis (1954), Todaro (2000), Dunning (1973a) and Hood and Young (1979) respectively are prevalent within the country.

6:2:1:5 The Contribution Of Agriculture To Ghana's Foreign Exchange

The agricultural sector of Ghana's economy – mainly through both traditional (cocoa beans and timber) and non-traditional commodities (handicrafts, textiles, furniture, etc.) made positive contributions to the foreign exchange earned by the country in 1998 (MacDougall, 1960). The traditional agricultural export commodities accounted for 39.5% of the foreign exchange earned by the country in 1998 compared with 37.3% in 1997 (ISSER, 1999 and 2000).

Table 6-3 Foreign Exchange Earnings By Agriculture and Non-Agricultural Sectors: 1990–1998 (US $m)

	Agriculture Sector						*Non- Agriculture Sector*			
	COCOA		TIMBER		NON - TRADIT-IONAL		NON - AGRIC		TOTALS	
Year	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
1990	361	40.3	118	13.2	29	3.2	387	43.2	895	100
1991	347	34.8	124	12.4	34	3.4	493	49.4	998	100
1992	277	28.1	114	11.0	22	2.2	526	53.3	986	100
1993	251	23.6	147	13.8	26	2.4	606	57.0	1064	100
1994	295	23.8	165	13.3	39	3.2	714	57.7	1238	100
1995	361	25.2	191	13.3	28	2.0	823	57.5	1431	100
1996	480	30.6	147	9.4	50	3.2	823	52.4	1570	100
1997	385	25.8	172	11.5	57	3.8	817	54.1	1490	100
1998	554	30.2	170	9.3	78	4.3	1028	56.2	1830	100

Source: Bank of Ghana

Among the commodities under this category, cotton seed, pineapples, frozen fish, coffee, sheanuts and tuna-fish earned the highest foreign exchange

earnings of US$ 9.11million, US$8.77 million, US$ 8.39million, US$ 8.25 million, US$ 7.89 million and US$ 7.02 million respectively in 1998

Other non-traditional commodities which earned quite substantial amounts of foreign exchange for Ghana in 1998 included yams US$ 4.76 million, cocoa waste US$ 3.61 million, maize US$ 3.40 million and bananas US$ 2.69 million (ISSER, 1999 and 2000).

Cocoa, Ghana's main agricultural foreign exchange earner is the only agricultural commodity in the country whose export is taxed. In 1998, the tax on cocoa generated 400.5 billion *Cedis* of revenue for the Ghana government (ISSER, 1999 and 2000). The cocoa tax revenue in 1998, which was approximately 51% higher than in 1997, constituted about 14.7% of the total tax revenue of the country in 1998. The importance of taxes paid to countries is emphasised by Meier (1984) and Ahiakpor (1990). Closely related to this are the remittances foreign firms make outside after tax payments on profits. Hood and Young (1979), Streeten and Lall (1973) and Bornschier (1980) observed that, when these remittances outstrip the income generated for the host country by these investments, there develops balance of payments difficulties for the host countries. The argument can be made that taxes on raw materials alone would not impact significantly on the economic growth of Ghana. However, if more FDI is sought and attracted to add value to the cocoa products, more foreign exchange could be earned, over and above taxes, to help the economy to grow.

6:2:1:6 Conclusion

This section of the chapter has discussed the agriculture sector of Ghana's economy over a decade. The contributions of this sector to the economy have also been discussed including foreign exchange; but the need for FDI attraction to enhance product diversification is emphasised. The concentration of Ghana's products on a few primary agricultural commodities can lead to an oversupply situation and with attendant price deterioration of these commodities and this may not be attractive to prospective foreign investors.

In the largely agrarian Ghana, it is positively perceived that food processing industries specifically designed to process these agricultural commodities into processed or semi-processed products through industries located in regional capitals and industrial towns (See Figure 4-1) may contribute even more positively to the country's economy than the raw primary commodities do at the moment [(Brown, (1993), Kirzner, (1973), Adam Smith (1976)].

These processed and semi-processed agricultural products produced with reasonable technology may further contribute more to the social and economic development of the country than, say, a highly technological capital-intensive industry where the technology is often not transferred to the local force. The food processing industries need to be located near production areas to engender development of the rural areas where most of the food crops are grown as argued in the literature by Lewis (1954).

A strong opinion of the researcher is that high export growth - supported by rapid industrialisation throughout the country (See chapter 4) - supported by a significant presence of FDI is what the agricultural sector of Ghana's economy needs. As discussed in the literature by Ahiakpor (1990), Balasubramanyam and Salisu (1991), Balasubramanyam, Salisu and Sapsford (1999), Todaro (2000) and Riedel (1991), the presence of FDI to facilitate such industrialisation would prove catalytic to diversification in the export of the country's agricultural products (Kirzner (1973) and Adam Smith (1976). For example, raw tuna processed into canned tuna in oil or brine, canned tomatoes, bauxite transformed into aluminium household and industrial products, etc.

However, as Rostow (1971), Lewis (1954) and Todaro (2000) among others pointed out, sufficient preconditions for development must be established in order to attract increased FDI into the country to facilitate such transformation to increase manufacturing and industrialisation. Also as observed by Dunning (1973a) and reiterated by Hood and Young (1979), the hallmarks of an enabling investment climate e.g. positive attitude to FDI, political stability, limitation on ownership, regulation, control and stability of foreign exchange, tax structure and familiarity with country, are conditions Ghana needs to work hard to accomplish.

The value-added benefits of these processed products with the help of FDI could represent a strong industrial base within Ghana distributed widely over all the countries regional capitals and newly created industrial towns. This value

addition would also reflect positively in the foreign exchange earnings of the country's agriculture sector, which in turn would enhance economic development as argued by MacDougall (1960), Clower *et al* (1966) and Ahiakpor (1990).

Overall, the contributions and performances of this sector could be better and contribute even more to the national economy and economic development of Ghana if increased crop production is facilitated by improved agricultural technologies preferably through the help of FDI. Again, foreign investment could help assist in the introduction and sustenance of mechanised farming, for example, which could help boost production levels of these farmers in Ghana as suggested by Kirzner (1973) and Adam Smith (1976). It is important that production plants carrying out the mechanised farming are located near the raw material sources (farms) in the rural areas. Where this is the case, then as argued by Lewis (1954), employment could be generated in the rural areas.

Frequently, LDCs such as Ghana and the other ECOWAS countries depend largely on donors for these kinds of technological inputs. In Ghana, for example, the heavy reliance on donor sources to finance agricultural development in the country has often resulted in many projects not being completed on schedule and some not being started at all. Again, the point is made that technology accessed by Ghana's agriculture sector should not only be directed at increasing output, but also at the processing and semi-processing of most of these raw products for value added exports. What this means is that, Ghanaians will have enough of

food to eat – no importation of these food crops – and at the same time export significant amounts of these processed foods, e.g. canned tuna in oil, canned tomatoes, canned pine-apples and fruits, fruit juices, yoghurts, chocolate bars, etc. As stated earlier in the chapter, sufficient food to eat means savings on foreign exchange that would have been used in importing these food crops. Such savings as argued by Meier (1984) and Ahiakpor (1990) constitute a large proportion of total government revenue and could play a significant role in Ghana's process of wealth and income distribution, which in itself is a significant aspect ot economic development, and the presence of significant FDI to help is crucial.

Furthermore, exports of the processed food crops mean generating additional foreign exchange earning to improve external revenue. Where these are the cases, then Ghana's investment, trade, and export efforts could positively reflect on the country's long-term goal of economic development, highly supported by FDI.

6:2:2 The Industrial Sector

6:2:2:1 Background

The graph in Figure 6-1 shows the Industrial sector (*Manufacturing, Mining & Quarrying, Electricity & Water, Construction*) – which is an important sector of the country's economic structure - at the bottom of the graph contributing the least to Ghana's GDP particularly during the pre-ERP era. In recent times this sector has

suffered from the acute energy crisis that hit the country in 1998 and part of 1999. This impacted negatively on the industrial sector and the country as a whole. Not surprisingly, the industrial sector of Ghana's economic structure grew only by 2.5% in 1998 as compared with 6.4 % in 1997 (See Table 6-1).

In March 1998, the President of the United States of America, Bill Clinton, on a visit to Ghana witnessed the energy crisis first hand, and promised American help for Ghana to help resolve the crisis. Indeed, the American help did come and the situation was largely reversed. The American government helped Ghana in insulating the bulk of industry from the power outages to help mitigate impact on industrial output. This help, which is similar to foreign help through FDI as suggested by Balasubramanyam and Salisu (1991), is vital, as the power and energy derived constitute important development preconditions that could attract FDI into the country.

In addition to American help, the government of Ghana introduced a three-point plan to address the energy crisis that was code named, "the Emergency Power Supply Plan". The plan's main focus aimed at:

- stabilising power imports from Cote d'Ivoire
- extending an invitation to the private sector to set up and operate emergency power generation facilities under short term contracts with the government

- accelerating the build-up of larger thermal power plants through joint ventures (FDI could be useful here) between private developers and the Ghanaian power utilities' companies.

Against this background, the industrial sector of the economy of Ghana recovered with a growth of 4.9% as compared with 2.5% the previous year, although it was still far short of the industrial sector performance of two years before. A strong industrial base in Ghana can be a strong influence on FDI attraction and also impact positively on the economic growth and development of the country.

6:2:2:2 Contribution

Most of the sub-sectors of the industrial sector, as a result of the energy crisis described in the section above, showed significant decline in growth rates. The improved growth rate in this sector since 1995 suffered a setback in 1998 (See Table 6-4).

6:2:2:2:1 Manufacturing

As shown in Table 6-4, since 1995, the manufacturing sector's growth rate and contribution to the Ghanaian economy has steadily been on an upward trend, moving from 1.8% in 1995 to 3% in 1996 whilst recording a remarkable 5.4% growth rate in 1997. This growth rate, however, dropped to 3% in 1998 (ISSER, 1999 and 2000).

Manufacturing, nevertheless, continues to be the largest sub-sector within Ghana's industrial sector of the economic structure contributing more than half the sector's output. In 1997 (before the energy crisis) the manufacturing sector contributed 9.3% to Ghana's GDP that year. However, the argument could be made that the presence of significant FDI in the country to help product diversification could make this performance even better.

In 1998, the performance of this sub-sector was less impressive. In that year, the sub-sector was the second worst performing in the industrial sector, contributing to the fall in industrial production during the year. Also, what the growth rates shown in Table 6-4 indicate is a poor and inconsistent industrial performance in Ghana for eighteen years. As argued earlier in the study, for Ghana to achieve a substantial economic growth and development, the industrial sector of the country's economy comprising of manufacturing, mining, construction and electricity generation performance should produce more steady and higher growth rates than that shown in Table 6-4. Manufacturing, which should focus on basic consumer manufactured goods to reduce imports, needs to produce consistent growth rates of 5% and over. Precious minerals mined in the country (See Table 6-5) need to be transformed into jewellery for export [(Kirzner (1973), Adam Smith (1976)] to earn more foreign exchange and achieve consistent growth rates of 5% and over. It is only then that this sector of the economy can make significant contribution to the economy as a whole to positively influence national income and per capita standard of living.

Table 6-4 Growth Rates Of Ghana's Industry & Sub-Sectors: %1981-1998

Year	Industry	Manufacturing	Mining & Quarrying	Electricity & Water	Construction
1981	-0.4	0.8	-8.5	24.4	9.7
1982	-22.9	-36.3	-7.9	-16.6	35.1
1983	-14.2	-11.2	-14.4	-38.9	-14.5
1984	11.9	12.9	13.5	42.9	2.3
1985	17.6	24.3	6.5	20.7	2.8
1986	7.6	10.9	-3.0	18.0	-2.7
1987	11.5	10.0	7.9	18.7	5.9
1988	7.3	5.1	17.8	12.9	8.4
1989	2.6	0.6	9.9	7.7	4.2
1990	6.9	5.9	6.4	14.6	7.3
1991	3.2	1.1	6.8	6.6	7.0
1992	5.8	2.7	10.4	12.0	10.1
1993	4.3	2.2	9.1	8.2	6.3
1994	1.3	1.5	5.1	5.3	4.2
1995	3.3	1.8	5.5	6.0	5.2
1996	4.2	3.0	4.2	6.5	6.1
1997	5.7	5.4	5.6	4.8	4.4
1998	2.5	3.0	4.0	-10.0	5.5

SOURCE: The State of the Ghanaian Economy in1998

6:2:2:2:2 Mining And Quarrying

As shown in Table 6-4, this sub-sector of the industrial sector of Ghana's economic structure experienced higher and steadier growth rates since 1988 than the manufacturing sub-sector. The sub-sector, however, experienced a reduction in its growth rate in 1998.

Gold - Ghana's top foreign exchange earner – experienced a lower growth rate in 1998 as compared with a year earlier. Despite the substantial increase in

production figures for gold in 1998, the sector only grew by 4% whilst growth a year before was 5.6% as shown in Table 6-5. This sector was also hampered by the electricity outages experienced for the major part of 1998.

Gold extraction itself increased in 1998 by over 42% recording a total volume of 2.34 million fine ounces as compared with 1.64 million fine ounces in 1997. The top three gold mining companies (Ashanti Goldfields' Group of Ghana – 1,251 million ounces, Abosso Goldfields – 270,824 ounces and Teberebie – 260,000 ounces) together extracted 76% of the total gold produced in 1998 and compared with 83% the preceding year (ISSER, 1999 and 2000). (Gold exports to the UK are discussed under trade structure and performance later in the chapter).

The performance and contribution of diamond production in this sector of Ghana's economic structure also experienced a significant increase in volume over the 1997 figure. In 1997, the total volume of diamonds won and sold was 770,537 carats while in 1998, a total of 823,125 carats were won and sold. This shows a 6.8% increase over the previous year (ISSER, 1999 and 2000).

There was a marked reduction in the production of bauxite in Ghana during 1998. This poor performance, which resulted in bauxite recording a negative growth among all of Ghana's minerals, was due to this mineral's heavy reliance on hydro-electric energy for production purposes. In other words the energy crisis of 1998 in Ghana adversely affected bauxite production in the country. Consequently, production figures for bauxite in Ghana for the year 1998 fell from

506,600 metric tonnes in 1997 to 442,514 metric tonnes, an over 12% fall (ISSER, 1999 and 2000). Out of the amount of bauxite treated, 314,170 metric tonnes were sold which fetched US$ 7.173 million.

The Ghana Manganese Company handles all the manganese produced in the country. In Table 6-5 the company processed a total of 536,871 metric tonnes of the manganese ore in 1998, and sold 384,406 metric tonnes in the same year. In monetary terms, manganese contributed US$ 10.968 million to the economy of Ghana during 1998. Production that year showed a 22.9% increase.

Table 6-5 Ghana's Mineral Production: 1990 - 1998

	1990	1991	1992	1993	1994	1995	1996	1997	1998
Gold (000 Ounces)	16.6	26.1	31.5	38.6	43.3	51.3	42.0	46.5	
Diamond (000 Carats)	150.3	419.4	584.5	616	722.8	294.2	714.7	770.5	823.1
Bauxite (000 tonnes)	382.1	485.1	498.2	417.4	500.3	426.1	383.4	506.6	442.5
Manganese (000 tonnes)	364.0	415.2	448.4	286.4	186.9	269.2	266.4	436.9	536.9

SOURCE: Quarterly Digest of Statistics, Ghana.; Ghana Chamber of Mines

6:2:2:2:3 Electricity And Water

This sub-sector of the industries sector of Ghana's economic structure was at the centre of the country's energy crisis in 1998. Electricity suffered a stream of under performances over a three-year consecutive period. The sub-sectors' growth rate fell from 6.5% in 1996 to 4.8% in 1997 and –10% in 1998.

In February 1998 the nation was hit by the power crisis described earlier in the chapter. The primary cause of the power deficit was that the power generation in Akosombo had to be curtailed by almost 50% due to the drought and the unusually low reservoir level. The massive power outages that resulted threatened to derail many industrial programmes throughout the country in 1998. The worst hit sector was the industrial sector, despite the management remedial measures the government put into place to salvage the situation. Government's emergency measures included:

(i) the introduction of a Power Supply Expansion Plan

(ii) the signing of various energy and power agreements with private energy supplies

(iii) the allocation of government fund for the acceleration and completion of the Aboadze Thermal Plant

(iv) the provision of emergency thermal generating plant at the Tema Oil Refinery

In addition to the above measures taken to forestall future energy crisis in the country, the Tema Oil Refinery was also refitted to increase its output of refined oil from 28,000 barrels a day to 45,000 barrels a day.

Despite the energy crisis experienced in 1998, the government fulfilled its promise of completing the electrification of all Ghanaian district capitals by the end of 1998.

6:2:2:2:4 Construction

This sub-sector of the industries sector of Ghana's economic structure was the only one that experienced an increased growth rate. After dropping from 6.1% in 1996 to 4.4% in 1997, the sector showed improved growth in 1998. This was partly due to the fact that this sub-sector has a unique characteristic of not relying too much on energy. Thus, the energy crisis, which is blamed for the relatively poor output in the other sub-sectors, had little effect on the performance of this sub-sector during 1998.

6:2:2:2:5 Conclusion

This section of the chapter has discussed the Industrial Sector of Ghana's economic structure for eighteen years. The contributions of this sector to the economy have also been discussed including the importance of earned foreign exchange for the country as emphasised by MacDougall (1960) and Ahiakpor (1990).

Overall, the contributions and performances of this sector could have been better and contributed even more to the national economy of Ghana had the bulk of Ghana's industries been backed by, or have Joint Venture compacts with FDI companies. Foreign investment could have assisted greatly in shortening the time period of the country's energy crisis described earlier in the section, if not preventing it from occurring altogether. The involvement of FDI could also provide diverse power sources as well as more electricity generally.

Again, the presence and involvement of FDI in the various industrial sectors of Ghana stands to offer the country technology, capital and skills that could facilitate mass industrialisation throughout the country as suggested in Figure 4-1. This will help to transform raw materials into useful goods and services (Kirzner (1973), Adam Smith (1976), and aid the increase of quality output of products to boost trade and export for the country. FDI can also develop most of the infrastructure aspects of development preconditions e.g. roads, railways, financial institutions, capital, technology and skilled labour which will link up Ghana's various industries in the regional capitals and industrial towns with each other as suggested in Figure 4-1 and by Ahiakpor (1990).

From the contributions and performances discussed in the section, it can be argued that Ghana on its own is struggling to excel in industrial production. It can also be concluded that the problem is with primary industries due to lack of sufficient foreign investment. A little push from foreign investment attracted into the country as suggested by Balasubramanyam (1984), Balasubramanyam, Salisu and Sapsford (1999), Bhagwati (1985) and Ahiakpor (1990) in all of these sectors of Ghana's industry could see a massive excellence in industrial performance in Ghana, which has the potential of impacting positively on the country's economic growth and development objectives and aspirations.

6:2:3 The Services Sector

6:2:3:1 Background

The services sector of Ghana's economic structure continues to assume the greater importance in the economy of the country as its role in Ghana's quest for economic development becomes more tangible. This sector constitutes an important source of foreign exchange largely through tourism and remittances of workers on foreign assignments as well as from Ghanaians resident abroad. In addition, some export revenue is earned from transportation services, harbour fees and services related to transit trade.

The services sector in recent years has responded positively to the macro-economic environment. That is, aggregates on government expenditure, Gross Domestic Product (GDP) recorded employment and current account all show the importance and increasing role of the services sector within the last decade.

Government policy in the services sector continued to concentrate on the development and sustenance of some important development preconditions as discussed in the preceding chapters. These include the rehabilitation, maintenance and expansion of the social infrastructure. In addition, government of Ghana has, within the years of 1996, 1997 and 1998, placed emphasis on the expansion of tele-communications facilities in the country in order to make Ghana an effective part of the global information network and make the country

more receptive to modern technology from foreign investment as suggested by Rostow (1971).

The "Ghana Vision 2020" – which aims at developing Ghana into a middle-income country by the year 2020 – encompasses some of the country's major goals in the services sector:

(i) establish an efficient system of storage, transportation and distribution of goods and services

(ii) establish Ghana as a major venue for international tourism which will lead to an increase in foreign exchange earnings; this is suggested by MacDougall (1960) and Ahiakpor (1990)

(iii) establish an efficient financial system in the private sector, which will ultimately make the capital, Accra, a major financial centre

These are ambitious "visions" for a country like Ghana to have. However, as the study discusses in section 6:2:4 there will be the need for external assistance in the form of FDI to see Ghana through to a successful implementation of most of these programmes.

6:2:3:2 Contribution And Performance

The services sector experienced an overall slow down in growth in 1997. Output of the sector rose by 0.6% in 1998 as compared with 0.7% in 1997. The share of the service sector's contribution to GDP, however, increased from 28.7% in 1997 to 29.1% in 1998 as shown in Table 6-6.

Table 6-6 Share Of Ghana's Services Sub-Sectors In Ghana's Total GDP 1994 – 1998 (%) (1993 Constant Prices)

SUB-SECTORS	1994	1995	1996	1997	1998
Transport, Storage & Communications	4.4	4.4	4.4	4.6	4.5
Wholesale, Retail, Restaurants & Hotels	5.9	6.1	6.3	6.6	6.6
Finance, Insurance & Real Estates	4.1	4.1	4.1	4.2	4.3
Government Services	10.8	10.9	10.6	10.6	10.9
Community, Social & Personal Services	1.8	1.8	1.8	1.8	1.8
Private Non – Profit Services	0.9	0.9	0.9	0.9	0.9
TOTAL	28.0	28.1	28.0	28.7	29.1

Source: Statistical Service, Ghana: Quarterly Digest of Statistics, various issues.

As shown in Table 6-6, the share in Ghana's real GDP of the transport, storage and communications actually decreased by 0.1% between 1997 and 1998. This does not positively reflect on Ghana's economic development aspirations. This is because, this is a sub-sector which is not only vital to the development of an economy like Ghana's – particularly in the fields of agriculture and industry – but also represents an important development precondition which is vital to the attraction of foreign investments into the country as theorised by Rostow (1971), Todaro (2000) Lewis (1954) and Harrod and Domar (1950).

All the other sub-sectors, although adversely affected by the energy crisis, remained at their 1997 and 1998 levels. Again, this may not be good enough since Ghana as an LDC with strong objectives of economic development should be seen to be yielding steady improvement in all areas of the country's economy by attracting significant FDI over exports and licensing for example, as expressed by Ahiakpor (1990) and discussed in chapter 2 of the study. However, it can be

argued that the services sector's not growing relative to the rest of the economy may not necessarily be a bad thing if it is keeping in step with the economy as a whole. The balance of trade in services indicates an increasing trend in contribution of foreign exchange by the sector (MacDougall, 1960). Tourism remains the main source of foreign exchange from the services sector.

Table 6-7 Tourists Arrivals And Earnings From The Ghana Tourist Trade

Year	Number of Arrivals	Total Earnings US$ Millions
1986	Not Available	26.60
1987	Not Available	119.60
1988	Not Available	168.00
1989	Not Available	205.60
1994	271,310	227,60
1995	286,000	237.20
1996	304,860	248.80
1997	325,438	265.59
1998	349,959	305.73

SOURCE: Ghana Tourist Board, Ministry of Tourism

As a result of the growth in tourists' arrivals, growth in the foreign exchange earnings has been on the increase since 1994. In 1998, Ghana earned over US$ 305 million from the tourist trade. This represents an increase of 15% over earnings from the same source in 1997, which is much higher than the increases obtained from the three previous years. (See Table 6-7).

The earnings from Ghana's tourism shown in Table 6-7 may be good news for Ghana's economic growth and development as expressed by MacDougall (1960)

and Ahiakpor (1990), but as is discussed in section 6:4 of the study, real and better contribution of the tourist industry can be attained if more attractive and protective measures are introduced by government to ensure that Ghana's tourist environment is safe and visitor friendly. Also, there is the need for larger hotels to be built around the country to enhance tourism further, and possibly attract more foreign investors into the country.

Education and health – two important constituents of development preconditions discussed in chapter 3 of the study – also form part of the services sector of the economic structure of Ghana. Ghana's broad policy goal on education is the achievement of universal basic education and the reduction of adult illiteracy. Increased literacy rate in a country is one development condition that Ghana would have to accomplish if the country is to make further gains towards satisfying some of the criteria for "take-off" in economic development. There is the need for Ghana's education policies to aim at improving the skill bases of its students rather than too much emphasis on pure academic work, for as discussed in chapter 8, foreign investors prefer host country labour with basic skills in manufacturing and production plants rather than importing them at heavy costs from overseas.

In 1998, while the enrolment to primary schools in the southern regions of Ghana improved by about 70%, that of the three northern regions was and is still appalling at under 45%. The growth of the number in secondary schools has not

solved the problem of increased demand for senior secondary school places from Junior Secondary School (JSS) graduates. Only a third of the JSS leavers gain admission into Senior Secondary Schools (SSS) (ISSER, 1999 and 2000). Admission to tertiary institutions leaves much to be desired. Senior Secondary School (SSS) graduates who seek admission into tertiary institutions are frustrated as places are not available in these institutions, particularly in the universities where less than 2 in 5 qualified applicants gain admission.

Ghana's policies in the health sub-sector continue to be aimed at increasing the life expectancy at birth and significantly reducing infant and child mortality. The strategy to achieve these remain the same; that is to reduce the incidence of water borne and environmental diseases arising from insanitary practices and to ensure access to health services for all Ghanaians.

The most significant development in the health sub-sector of Ghana's economic structure's services in 1998 was in the area of equipment supply. Under a countrywide project, 60 government and mission hospitals, 14 polyclinics and Ghana's biggest hospital – the Korle-Bu Teaching Hospital – were all supplied with diagnostic imaging equipment . In addition, sixty hospitals, and selected training institutions were also supplied with audio-visual equipment for safe motherhood and teaching purposes. The Tetteh Quarshie Hospital at Mampong –Akwapim in the Eastern Region of Ghana was completely rehabilitated. But the question is, how well do these transform into a better standard of living for the

people of Ghana since modern (and sometimes basic) hospital and health supplies are still in short supply?

6:2:4 Ghana's Economic Structure And Performance:1997 And 1998

Economic growth emanating from a well-managed sound economy is fundamental to human development even if it does not guarantee human development. As discussed in the chapter, Ghana's economic growth rates of 5.2% in 1997 and 4.6% in 1998 were below the country's own official targets.

6:2:4:1 Agriculture

Agriculture, discussed in section 6:2 earlier in the chapter and the sector in which Ghana's poor are concentrated, recorded the lowest sectoral growth in 1997, mainly due to a slowdown in production of the cocoa and fisheries sub-sectors. The resurgence of food and livestock production in the same year was not evenly distributed across the country, with deficits emerging in the northern sector. These may be due to variable and inconsistent rainfall.

For Ghanaians who depend on agriculture, this may mean precarious living conditions marked by long periods of food shortages in some cases. For economic development, the contribution of agriculture towards this goal may not be at its full capacity as argued by Brown (1999). There is, therefore, the absolute need for Ghana to employ the services of mechanised farming to improve the agricultural performances of the economy and this can be facilitated

by FDI technology transfer as observed by Rostow, (1971) and reiterated by Ahiakpor (1990) and Lall and Streeten (1977).

6:2:4:2 Industry

As discussed earlier in the chapter, and as shown in the graph in Figure 6-1, Ghana's industry performed worst among the three main sectors of the country's economic structure. The manufacturing sub-sector too needed an upward trend, in its performance. These upward trends are particularly vital to the realisation of the Ghana's industrialisation programme as suggested in chapter 4 of the study.

Furthermore, without the production of sufficient and significant manufactured goods, as argued by Huynen (1973), the holding of trade fairs in the country will have little to offer in terms of trade and investment. Also, the industrial and manufacturing bases of Ghana must expand for successful diversification into manufactured exports employing FDI to transform Ghana's raw materials into these diversified (manufactured) goods as emphasised by Kirzner (1973) and Adam Smith (1976).

Diversification of Ghana's products from primary commodities into manufactured goods could positively impact on the country's efforts at attracting even more investment as well as the expansion of trade and exports for economic growth and development.

The assistance programmes of aid donors to assist manufacturing have not had any impact, partly because intended beneficiaries are frequently unaware of such facilities. The situation is worsened by a big time lag in the announcement of the decision to provide assistance and the actual provision of the facility. An example of this is the Export Development and Investment Fund proposed in the 1997 budget which at the time of the 1998 budget had still not been put into operation.

6:2:4:3 Services

The services sector maintained relatively high growth rates compared to that of the other sectors of Ghana's economy throughout 1997 and 1998. The wholesale and retail sub-sectors grew particularly fast at over 10% (ISSER, 1999 and 2000).

Although this is the sector in which many women as well as Ghana's poor generally find employment, the workers tend to be confined to micro-enterprises with small operating margins. Tourism is in the same group. It has emerged as the second largest foreign exchange earner (MacDougall (1960) for Ghana behind gold and overtaking timber. However, as expansion in tourism creates employment opportunities in the hotels and restaurants, arts and crafts and transportation industries, the conditions of service for the semi-skilled and unskilled workers tend to be unattractive and job security is low. This reinforces the argument made earlier in the chapter that Ghana's education should also

target the vocational skills of students rather than concentrating on pure academic work.

Besides, in order to boost the Ghana tourist trade, a lot more has to be done by policy makers in government ministries to make the country's investment climate more enabling and attractive as observed by Dunning (1973a) and reiterated by Hood and Young (1979). As tourism expands, measures need to be taken to ensure that the local environment is protected. For instance, as the number of visitors to the beaches and national parks increases, maintenance and security of these assets must be stepped up. There is also the need for government to advertise Ghana's tourist attraction overseas (Huynen, 1973) to attract maximum patronage and foreign investment.

6:2:4:4 Government Instruments

Central government spending is an important instrument for achieving economic development objectives in economies such as Ghana, where the possibility of using taxes to redistribute income is limited. As observed by Ahiakpor (1990) and Todaro (2000) the structure of government spending (See Appendix 9) or what government spends its money on, is an important component of any strategy to create employment opportunities and improve human and economic development.

In 1997, interest payments in Ghana accounted for about 22.5% of total central government expenditures and 30% of total revenues and grants. In 1998, high nominal interest rates and depreciating exchange rates have combined to increase the cost of interest payments on internal and external debt, a process that has continued since 1992 when they were estimated to have been 11% of total government expenditure. But as observed by Dunning (1973a) and Hood and Young (1979) a well-controlled and regulated exchange rate mechanism of a country contributes positively to its investment climate, and it is important for Ghana to vigorously emulate this practice.

What Ghana's position shows, however, is that only 79% of current government spending was available for recurrent payments and capital expenditures in 1997, which in effect means revenues generated from taxes on cocoa and imports were used to pay interest on debt incurred in the past. If this trend is not reversed, it can create impediments for Ghana's economic development "take-off" aspirations, as expenditure on vital development preconditions such as infrastructure and education will reduce considerably. Where such economic situations persist, FDI attraction into the country may also suffer.

6:2:4:5 Macro-Economic Policy

In 1997 and 1998, some progress was made towards creating conditions of macro-economic stability with the reduction of inflation rate to as low as 9.5% by July 1999. Unfortunately, however, the appreciation of the real exchange rate

(Dunning, (1973a) Hood and Young (1979) as observed in the preceding section reduced competitiveness.

Later in 1998 the *Cedi* recovered and appreciated in real terms by over 15%. The relative stabilisation of the *Cedi* during this period was mainly due to Bank of Ghana's intervention through the sale of foreign exchange to support the weakening *Cedi.* Throughout the year, Ghana continued to pursue a liberal exchange rate regime where the market largely determined the cost of the foreign exchange. Foreign exchange can be purchased from commercial banks and numerous foreign exchange bureaux (forex) in the country.

Although there is a difference between the exchange rate maintained by the bank when they lend to each other (inter-bank) and the average forex rate, the two rates invariably move together with inter-bank rates being lower than the forex rate. The liberalisation of Ghana's exchange rate system aims at enhancing regional and external trade by making available a free, regulated and controlled foreign exchange market for traders as suggested by Dunning (1973a) and Hood and Young (1979). It has also contributed largely to the total eradication of "black market" (illegal foreign currency sales) that has plagued the country's exchange rate mechanism and economy at large for many years.

However, the inflation and nominal interest rates for the country need to fall further. A decline in the budget deficit ratio with arrears will discourage the

private sector (prospective foreign investors) as it stands to send disturbing signals about the strength of Ghana's commitment to maintaining macro-economic stability and providing economic security to private sector investment.

The years, 1997 and 1998, witnessed Ghana government policy reversals such as appreciation of the real exchange rate. Such policy reversals (See chapter 4 on policy shifts) contribute to signal an uncertain economic environment, though they are not the only source of risk in the Ghanaian economy today. Weaknesses in the Ghanaian legal system, uncertainty whether contracts will be honoured and, if not, what redress was available remain worrying issues. They also cast doubt on government's commitment to creating an enabling environment for increased private sector activity.

6:3:0 Ghana's Trade Structure And Performance

6:3:1 Background

Ghana has since the ERP in 1983 successively promoted a liberal trade and payments regime with support from the World Bank, IMF and other donors. In 1998, a Trade and Investment Reform Programme (TIRP) supported by the United States Agency for International Development (USAID) was put in place to:

(i) further improve the policy environment for investment and trade

(ii) promote financial inter-mediation

(iii) enhance private sector performance e.g. the creation of an attractive investment climate

These measures planned to undertake such activities under TIRP were designed to enhance the capacity of private enterprises engaged in value-added production and marketing of selected products. By doing this, TIRP will seek to attract more private enterprises and make them more efficient and effective.

The major policy thrust of the above programme has been to expand the production base of the economy and to build up competitive strength of industry so that the economy can take advantage of the opportunities offered by the new global environment of free trade. As a result of these policies, in 1998, Ghana's non-traditional export products showed some growth (See Appendix,10).

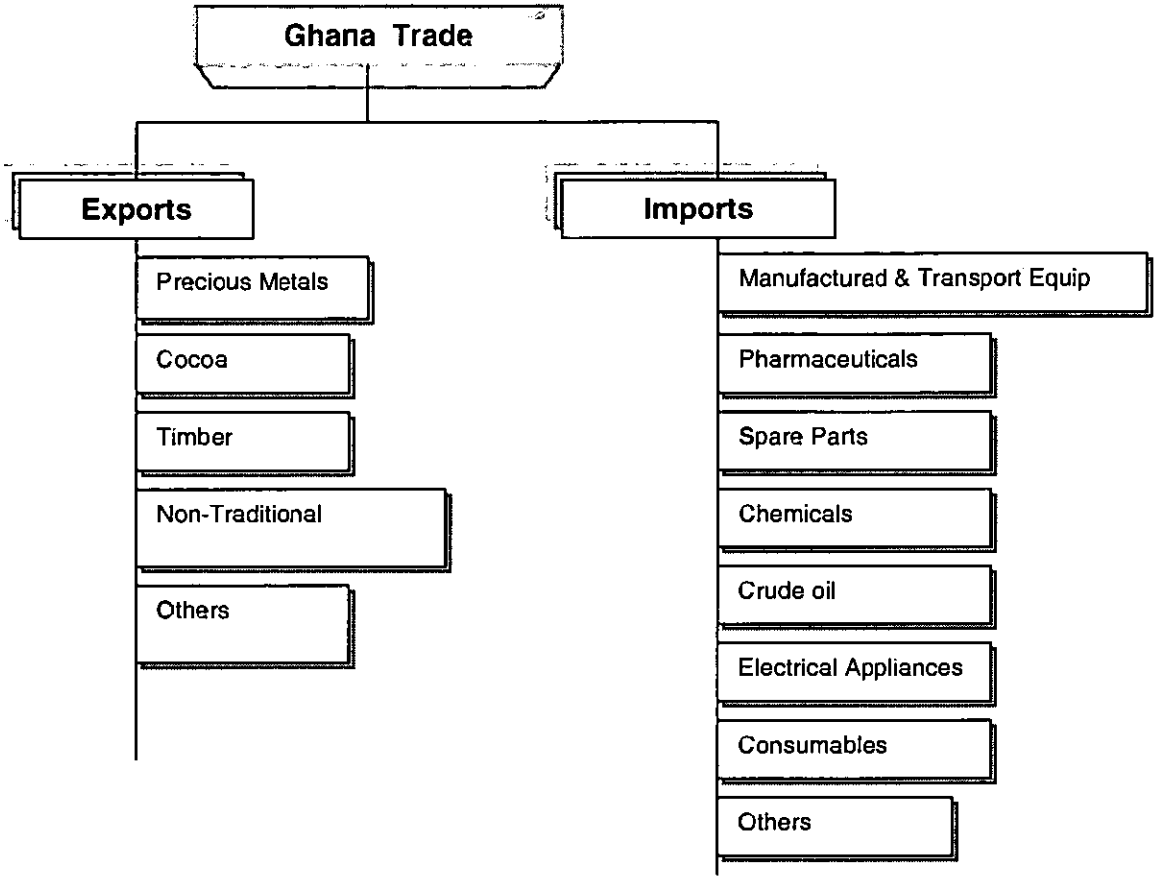
The structure of Ghana's trade is shaped by two principal sectors:

(i) the Exports sector

(ii) the Imports sector

Figure 6-2 shows the structure of Ghana's trade. Exports are dominated by primary products such as precious metals (gold, diamonds, bauxite and manganese), cocoa, timber as well as non-traditional products such as handicrafts, textiles and processed agriculture products. Imports on the other hand include mostly manufactured goods, oil and pharmaceuticals.

Figure 6-2 Ghana's Trade Structure



6:3:2 The Exports Sector Of Ghana's Trade

The export sector of Ghana's trade is characterised mainly by the exports of the country's traditional and non-traditional products. As shown in Figure 6-2, they mainly consist of precious metals notably gold, diamonds, manganese, and bauxite. The other exports include cocoa, timber, and non-traditional exports. However, as has been pointed out by Brown (1993) and Huynen (1973), the continuous export of primary products as such make these goods susceptible to price deterioration and an oversupply situation, which could do very little to contribute to the economic growth and development of an LDC such as Ghana.

6:3:3 Ghana's External Trade (Trade Performance)

6:3:3:1 Direction Of Export Trade

The European Union (EU) remains the single most important market for Ghana's exports accounting for at least 36% of Ghana's exports annually. While this share is significant, it has been gradually declining over the years, and in comparison with a decade ago when the share of trade was in excess of 60%.

In the EU, The United Kingdom, the Netherlands and Germany are the leading markets for Ghana's exports. The EU is followed by the ECOWAS sub-region, in which Nigeria is Ghana's most important trading partner, followed by Côte d'Ivoire and Togo.

Ghana's exports to the United States of America declined slowly over the past five years from US$ 198.5 million in 1993 to US$ 144.9 million in 1997 (ISSER, 1999 and 2000). However, recent trade and investment promotion tours led by Ghana's President, Jerry Rawlings (See Figure 3-1) to the major trading cities of the United States of America has helped to reactivate and increase trade between Ghana and the United States of America in recent years. This is further complemented by a reciprocal investment and trade visit to Ghana in 1998 by the President of the United States of America, Bill Clinton, and his strong 600-man trade delegation that is helping to gradually reverse the decline in the trend of Ghana's trade performances.

In Asia, Japan is Ghana's most important export destination with exports totalling US$ 52.3 million in 1997 (ISSER, 1999 and 2000).

There are other destinations for Ghana's exports – especially non-traditional exports. These are classified in Table 6-8 as "others." These are becoming increasingly important, though not yet significant on an individual country basis. Some of these destinations include Thailand and Vietnam in Asia. Las Palmas, Spain, Libya, Tunisia, Turkey, Sierra Leone and Burkina Faso are among the others. Increase in the exports of processed and manufactured products from Ghana to these countries could attract FDI into the country with which the production and expansion of such products would continue.

Table 6-8 Value of Ghana's Exports By Major Countries (US$ million)

Country	1994	1995	1996	1997	1998
United Kingdom	219.0	192.4	154.5	159.4	63.9
Nigeria	193.0	235.4	268.5	201.6	145.5
United States of America	187.0	184.4	162.6	144.9	70.8
Germany	57.0	63.8	65.9	76.6	46.5
Cote d'Ivoire	70.0	54.0	43.3	126.7	71.0
Japan	77.0	57.8	144.1	52.3	52.4
Netherlands	122.0	156.8	185.2	203.5	116.0
Switzerland	19.0	25.6	19.6	16.2	17.0
Togo	92.0	117.6	4.4	5.1	2.8
Others	559.0	601.2	652.3	733.7	350.3
TOTAL	1,595.0	1,689.0	1,700.4	1,720.0	938.2

Source: State of the Ghanaian Economy Report, 1998, ISSER

In Table 6-8, the United Kingdom stands out as Ghana's biggest trading partner. This may, perhaps be due to historical reasons. Similarly and for the same

reason, perhaps, France is Côte d'Ivoire and Togo's biggest trading partner. However, it can be argued that there are investment and trade opportunities in other countries rather than former colonial rulers. These include countries such as Canada, Japan, the USA, the Netherlands etc., which might even prove more beneficial to the investment and trade of some of these developing countries. In other words, the concentration of Ghana's trade with one country would not possibly afford the country the opportunity to explore other countries for the best returns on investments, exports and trade – which are all vital in the country's economic development. It is, therefore, necessary for LDCs like Ghana and the other ECOWAS countries to survey the global trading world and enter into investment, trade and export treaties and transactions with trading partners who have high profit potentials.

6:3:3:2 Ghana's 1999 Trade Performance With The United Kingdom

The United Kingdom remains Ghana's biggest trading partner as shown in Table 6-8. This section of the study discusses the real merchandise trade between the two countries in the year 1999, and further discusses possible areas of improvement and encouragement.

The total trade between Ghana and the United Kingdom in 1999 amounted to £476,796,916. This comprised of Ghana's exports of £ 300,975,551 and imports of £175,821,365 from the United Kingdom giving Ghana a trade surplus of £125,154,186 (Ghana Trade Commission, London, 1999).

Table 6-9 Ghana / United Kingdom Merchandise Trade: 1998 - 1999

Year	Ghana's Exports(£m)	UK's Exports (£m)	Total (£ m)	Trade Balance (£.m)
1989	92	121	213	-29
1990	105	162	267	-57
1991	77	170	247	-93
1992	82	174	256	-92
1993	72	214	286	-143
1994	194	120	384	+4
1995	272	240	512	+32
1996	261	299	560	-38
1997	198	270	468	-72
1998	278	225	503	+53
1999	300	175	475	+125

SOURCE: "*1999,Trade Report*" Ghana Trade Commission London.

What Table 6-9 shows and is of considerable significance during the Ghana-United Kingdom trade for the year 1999, is that although the total trade performance had dropped below the £ 500,000,000 mark, this has been the first time in the last ten years that Ghana's exports to the United Kingdom exceeded £300,000,000.

Table 6-9 also shows Ghana's exports to have increased from £278.6 million in 1998 to £300.9 in 1999 whilst the United Kingdom's decreased from £225.2 million in 1998 to £175.8 in 1999. While there is clearly more room for improvement, it can be argued that such performances could send positive signals to potential foreign investors into the country.

This trade surplus with the United Kingdom could be attributed to the steady increased quantities of gold and cocoa beans exported in 1997, 1998 and 1999 (57.55 kgs. in 1997, 75.25 kgs. in 1998, 92.61 kgs. in 1999). It can be argued, however, that more value could be added to these products if they were diversified into manufactured and processed goods as argued by Kirzner, (1973) and Adam Smith (1976). Such a diversification will not only add value to the goods and earn more foreign exchange (MacDougall, 1960) for Ghana, but also contribute immensely to Ghana's goods being reasonably competitive in overseas markets. This will also be helpful in portraying Ghana as a competitive trader in world trade. The income from these earnings could impact positively on income distribution in Ghana, which could in turn help to increase the standard of living of the Ghanaian people, a vital issue in economic development as argued by Ahiakpor (1990).

Cocoa beans also increased from £56m in 1997 to £83m in 1998 but dropped in value to £80m despite increased volume exported. The drop in Ghana's cocoa earning in 1999 (although volume increased) may be attributed to the drop in cocoa prices on the world market as predicted and argued by Brown (1993). But more significantly, this confirms the affirmation the study alluded to earlier on that, trade growth in primary products alone is less sustainable. Ghana's cocoa, if processed into different brands of chocolates within markets in Europe and elsewhere may be more sustainable in trade growth than raw cocoa beans as was the case in 1999 with Ghana's cocoa trade with the United Kingdom.

In percentage terms, the product mix of Ghana's exports to the United Kingdom in 1999 comprised gold (51.16%) cocoa beans (26.67%) tuna / skip-jack loins (6.58%) sawn tropical hardwoods (1.86%) cocoa butter (1.65%) and wooden furniture (1.33%). Others include vegetables (1.28%), tuna in oil (0.84%), other preserved fish (0.65), yams (0.64%) veneer (0.46%), pepper (0.27%), pawpaw (0.15%), pineapples (0.13%) and the rest (6.33%); (Ghana Trade Commission, London).

There have been some significant changes in the performances and contributions of some of the non-traditional exports from Ghana into the United Kingdom in 1998 and 1999. In value terms, some of these products have improved in performance. However, as the "*1999 Trade Report*" prepared by the Ghana Trade Commission in London confirms, some of these products have not performed well at all. The report states one of the reasons for this is due to supply constraints.

As has been argued earlier on in this chapter, the major reason could be lack of mechanised farming to sustain supply as well as non-diversification of these products. In others words, these basic commodities are not processed and transformed into more durable export products as discussed in the literature by by Kirzner (1973) and Adam Smith (1976). This is because the private sector in Ghana has not got adequate resources to carry out such diversification of products; but significant FDI attracted into the country could accomplish this.

For example, if tomato – which is seasonal – is processed into canned tomatoes sufficiently over the boom period – enough stock could be used internally, and also exported overseas, whilst maintaining the supply levels over the lean period. The same can be said of cocoa beans and gold processed into chocolates and jewellery respectively.

Table 6-10 Product Mix Of Ghana's Exports To The UK: 1988 And 1999

Product	Amount (1998) (£)	Percentage (1998)	Amount (1999) (£)	Percentage (1999)
Gold	124,102,089	44.54	153,989,208	51.6
Cocoa Beans	82,193,182	29.77	80,275,958	26.67
Sawn Tropical Hardwoods	8,417,721	3.02	5,599,249	1.86
Tuna / Skipjack	18,193,182	6.53	19,807,697	6.58
Other Preserved Fish	-	-	1,965,338	1.65
Cocoa Butter	4,191,845	1.50	4,941,836	1.32
Wooden Furniture	3,952,586	1.42	4,002,840	1.28
Other Vegetables	3,026,987	1.09	3,843,240	0.65
Tuna in Oil	4,975,968	1.79	2,513,464	0.84
Veneer	-	-	1,371,813	0.64
Yams	1,853,555	0.67	1,955,736	0.45
Pepper	-	-	794,157	0.27
Pawpaw	393,302	0.14	473,328	0.15
Pineapples	283,497	0.10	405,139	0.13
Natural Rubber	2,002,316	0.72	-	-
Palm Oil	797,338	0.29	-	-
All others	18,061,487	6.48	19,036,548	6.33
Total	278,638,501	100	300,975,551	100

SOURCE: "*1999,Trade Report*:" Ghana Trade Commission London

Table 6-10 shows a mix of various kinds of exports to the United Kingdom in 1998 and 1999. None of these products exported to the United Kingdom during

those years were manufactured goods. Again, as Brown (1993) argued countries that rely heavily on a few primary commodities could occasionally experience growth; but the growth is subject to market volatility. Also, given the long-term trend of commodity price deterioration – as has recently been the case – primary commodities may not be sustainable in the long run. Also as argued by Clower *et al* (1966), Huynen, (1979), Meier (1984), Ahiakpor (1990) and Brown (1993), the exports of such primary products contribute very little to the process of wealth and income distribution, which is a significant aspect of economic development.

There is the need to attract significant amounts of FDI to boost the production of manufactured goods. A replacement of the export of primary goods by manufactured ones with the help of FDI would help to improve Ghana's wealth and income distribution and, in effect, economic development [(Ahiakpor, (1990), Hood and Young (1979) Dunning (1973a) Lall and Streeten (1977)]. To do this effectively, first development preconditions for growth as theorised by Rostow (1971), Lewis (1954) and Harrod and Domar (1950) Todaro (2000) need to be put into place. Variables like capital accumulation, population growth and the labour force (human capital), technological progress and capability, political stability, macro-economic and fiscal policies need to be strengthened within the country. Second, an investment climate as argued by Dunning (1973a) and Hood and Young (1979) recognising, exchange control and regulation, political stability, ownership and familiarity with the country should be pursued vigorously.

6:3:3:3 Ghana's Trade Performance On Processed And Semi-Processed Goods In 1999

The processed and semi-processed sub sector of the exports sector of Ghana's trade registered the highest share of the total non-traditional export sector. This, perhaps, supports the case for processed, semi-processed and manufactured goods that the study has repeatedly argued for.

However, the contribution of 75.9% exports by the non-traditional exports sector in 1998, declined from the value of US$ 154.246 million to US$ 136.456 million in 1999 showing a decrease of 11.53% (ISSER, 1999 and 2000). This was due to the fall in the number of exporters of processed, semi-processed and manufactured goods than anything else. 820 exporters exported 162 items in 1999 as compared with 964 exporters who exported 189 items in 1998. But again, none of these are manufactured goods with better and more competitive earning potential.

Again this places great emphasis and significance on the need for Ghana to diversify sufficiently from primary products into processed and manufactured goods as stressed by Huynen (1979), Kirzner (1973) and Adam Smith (1976). The value added benefits accruing from such diversification in the export structure is illustrated in the 1998 and 1999 earnings described in the above paragraph.

6:3:3:3:1 Wood And Wood-Products

This constituted the highest earner of the sub-sector with a contribution of 27.25% to the sub-sector amounting to US$ 37,187 million in 1999 as comapared with US$ 31,300 million in 1998 an increase of 18.81% (ISSER, 1999 and 2000). The major specific products included:

- **Furniture parts**: contributed US$ 4.753 million in 1998 and US$ 4.275 million in 1999 (ISSER, 1999 and 2000)
- **Plywood**: contributed US$ US$ 1.747 million in 1998 and US$ 4.207 million in 1999 (ISSER, 1999 and 2000)
- **Sliced and Rotary Veneer**: contributed US$ 18.455 million in 1998 and US$ 18.460 million in 1999 (ISSER, 1999 and 2000)
- **Builders' Woodwork**: contributed US$ 9.657 million in 1998 and US$ 6.032 million in 1999 (ISSER, 1999 and 2000).

6:3:3:3:2 Cocoa-Cake, Cocoa-Liquor And Cocoa-Butter

These made a contribution of 26.46% to Ghana's processed and semi-processed sub-sector's earnings. The three together earned an amount of US$ 22.455 million in 1999 as compared with US$ 39.896 million earned within the same period the previous year. This, however, shows a decrease of 43.72%.

6:3:3:3:3 Aluminium Products

These are principally exported in sheets/coils/plates. Between January and June 1999, the export of this processed aluminium contributed US$ 2.315 million to

the non-traditional export sector as compared with US$ 4.703 million recorded in 1998, a decrease of 50.77%. During the same period, aluminium processed into Aluminium Household Utensils fetched US$ 3.062 million compared with the US$ 3.208 million the same period in 1998 indicating a decrease of 15.89% in value (ISSER, 1999 and 2000).

6:3:3:3:4 Other Products

Other processed products, which contributed significantly to Ghana's processed and semi-processed sub-sector of the country's exports included:

- **Foam Mattress:-** this earned US$ 1.585 million in 1999 as compared with US$ 0.687 recorded in 1998, an increase of 130.63% (ISSER, 1999 and 2000)
- **Articles of plastic**:- These items which have been showing positive signs of growth registered a negative growth of 10.25% from US$ 2.117 million in 1998 to US$ 1.900 million in 1999 (ISSER, 1999 and 2000)
- **Handicrafts**: Export earnings from handicraft continued to show gradual increase with a contribution of 1.70% to the non-traditional export sector. It recorded an increase of 19.12% from US$ 2.568 million in 1998 to US$ 3.060 million a year later (ISSER, 1999 and 2000)

Again, the decrease was due to the fall in the number of exporters from 111 to 79. The number of products also decreased from 11 to 10 in 1999. These are

not good for FDI attraction into the country and Ghana has to work harder to reverse this trend.

6:3:3:3:5 Illegal Cross-Border Trade

A very important but unofficial potential base of Ghana's trade – which has been in existence for a long time – is the illegal cross-border trade, which exists in Ghana, and all of West Africa. There is the illegal trade of agricultural products such as cocoa, mineral oil, industrial consumer goods, gold, diamonds, cars and even pharmaceuticals and weapons.

A possible explanation of why this illegal cross-border trade flourishes is because of prevailing fiscal distortions, which would disappear under a more efficient Ghana and ECOWAS trade.

It is estimated that informal trade amounts to several billions of United States dollars per year (Oduro, 1995). If one takes this illegal and uncontrolled trade into account, Ghana and ECOWAS certainly look much more integrated in trade and economy than official figures and percentages might suggest.

The *mise en valeur*[1] of Ghana and ECOWAS' informal cross-border trade in favour of the official trade integration objectives is a strong stimulus for trade development and expansion within the region.

[1] French expression for "great value"

6:3:4 Observations On The Performance Of Ghana's Export Sector

Many of Ghana's exports have been suffering from inconsistencies in increased production during the years under review. Whilst part of the problem could be attributed to the 1998 energy crisis described earlier on in the chapter, a significant reason also is the decrease in the country's processed goods and their exporters possibly due to lack of increased foreign investment.

The importance of diversification into processed and manufactured goods of Ghana's primary commodities cannot be understated as has been argued by Kirzner, (1973), Adam Smith (1976) and Ahiakpor (1990). This has also been reiterated several times in the study.

In 1996, the Ghana Timber Export Development Board (TEDB) formerly Ghana Timber Marketing Board completely banned the export of logs (unprocessed wood). The new legislation made all timber for export to be processed into either sawn timber of furniture parts. This move is towards improving and expanding semi-processing, processing and value-addition increase the foreign exchange earning potential of these products as argued by Brown (1993), Kirzner, (1973) and Adam Smith (1976).

This change in policy caused the export in quantity of timber to fall by a large percentage; but the value of timber exports (processed) rose considerably as shown in Table 6-11.

Table 6-11 Ghana Timber Exports: Processed And Unprocessed: 1991-1999

Year	Unprocessed Timber Logs		Processed Lumber (Kiln Dry)		Processed Lumber (Air Dried)	
	Volume M3	Value US$	Volume M3	Value US$	Volume M3	Value US$
1991	215,438	31,778,027	14,934	7,161,526	146,320	48,798,755
1992	177,037	23,100,280	28,971	11,615,767	182,455	55,422,989
1993	495,613	54,354,872	35,017	11,818,319	188,896	57,040,876
1994	572,374	66,898,709	60,216	22,512,346	188,623	79,204,703
1995	80,617	7,449,141	80,464	32,032,803	194,067	75,274,253
1996	BANNED	BANNED	84,918	30,289,972	142,391	51,947,719
1997	BANNED	BANNED	127,398	41,804,825	142,391	51,947,719
1998	BANNED	BANNED	129,244	45,898,530	118,623	44,584,731
1999	BANNED	BANNED	124,239	45,870,170	117,137	42,548,315

SOURCE: Ghana Forest Production Inspection Bureau, Takoradi –Ghana

What this implies is that, Ghana's export trade will benefit immensely from adding value to primary commodities before export. In Table 6-11, the partially shaded portion of 1995 shows export volumes of unprocessed logs and kiln dry lumber as 80.6m^3 and 80.4m^3 respectively. For these volumes the unprocessed logs exceed the processed kiln dry lumber by only .3m^3 which represents less than 1% increase (0.0046%). But in value, the earning of the processed timber exceeded that of the unprocessed logs by US$ 24,583,662 representing an increase (value added) of 430%.

This practical example of processed goods adding value to primary products vindicates Brown (1993), Kizner (1973) Ahiakpor (1990) and Adam Smith's (1976) arguments for diversification and the processing of processed, semi-

processed and manufactured goods in developing countries possibly with the help of FDI.

6:4:0 The Imports Sector of Ghana's Trade

The import sector of Ghana's trade is characterised mainly by the imports of manufactured goods. e.g. transport equipment, pharmaceuticals, machine parts, chemicals, consumables and other consumer goods. Crude oil is Ghana's largest primary import commodity, accounting for US$800 million of government expenditure in 1999. Such huge expenditure on oil, for example, helps to push up the country's imports thereby creating trade deficits.

Table 6-12 Value Of Ghana's Imports By Major Sources:1994 – 1998

(US$ million)

Country	1994	1995	1996	1997	1998
United Kingdom	322.0	415.8	517.8	497.6	195.5
Nigeria	343.0	387.6	426.4	473.3	243.8
United States of America	137.0	172.8	324.9	345.7	127.8
Germany	114.0	193.0	170.7	197.4	75.7
Côte d'Ivoire	31.0	40.0	135.6	149.3	85.2
Japan	138.0	102.3	108.3	84.4	48.1
Netherlands	84.0	128.2	97.4	129.1	71.6
Switzerland	15.0	18.5	17.4	18.5	7.1
Togo	7.0	10.4	12.4	13.6	7.8
Others	8,81.0	1,017.5	1,379.8	1,383.6	724.2
TOTAL	20,773.0	2,486.1	3,190.6	3,292.5	1,586.8

Source: The State of the Ghanaian Economy in 1998, ISSER

The European Union continues to be the major source of Ghana's imports. The share of Europe in Ghana's imports declined from 30.4% in 1995 to 25.2% in 1996 and then to 25.6% in 1997. As at June 1998, the share of Europe in total imports of Ghana was 22.1%. Similarly, the share of West Africa (ECOWAS) in Ghana's imports increased from 17.6% in 1995 to 18% in 1996 and then to 19.3% in 1997. As at June 1998, the share of West Africa (ECOWAS) in total imports of Ghana was 21.2%.

The major countries from which Ghana imports merchandise (more than 10% of the value of total imports) are the United Kingdom and Nigeria. Ghana's imports from the United Kingdom in 1999 varied widely, but the main items included machinery spare parts, medicaments, chemicals, books, iron and steel products, pumps, used clothing and electrical appliances. Ghana's biggest import from Nigeria is mainly crude oil as the figures in Table 6-12 show.

6:5:0 Ghana's Balance Of Payments

In 1998, the net capital inflows of Ghana's earnings from varied sources were more than enough to finance the current account deficit, and thus resulted in an overall balance of payments surplus of US$ 99.4 million. The balance of payments increased from a deficit of 18.9 million in 1996 to a surplus of US$ 24.9 million in 1997. Meier (1984) and Ahiakpor (1990) have stressed the significance of a country's balance of payments to its national income distribution.

Although the figures stated above may have contributed to the net transfers from both official and private sources - from US$ 560.1 million in 1997 to US$ 650.5 million in 1998 - they were not enough to countervail the adverse impact of the negative trade balance on the current account. Consequently, on the whole, Ghana's current account balance was negative in 1998.

Also, net private capital, which had been increasing steadily since 1993 fell from a high of US$ 216.2 million in 1995 to US$ 70.0 million in 1996, US$ 55.4 million in 1997 and to a deficit of US$ 10.4 million in 1998. One reason for the low private capital generation in 1998 was the power / energy crisis which crippled most manufacturing industries and caused existing and potential investors to hold on to their capital.

6:5:1 Ghana's External Debt And Liquidity Situation

The external debt of Ghana followed the increasing trend in 1998. Total external debt is estimated at US$ 5,893.65 million as at the end of December 1998 compared with US$ 5,651.40 million at the end of December 1997, an increase of 4.3%. This increase in the total external debt of 1998 is mainly the result of disbursement of long term concessional borrowing. If the trend is not reversed, such performances would serve as disincentives in attracting FDI into the country.

6:6:0 Evaluation Of Investment Climate

In this section, the study evaluates Ghana's investment climate in the light of the country's economic and trade structure and performance. It also discusses the foreign investment potentials that some of Ghana's infant industries make available to potential foreign investors. Significant works of the creation of investment climate by LDCs such as Ghana and the other ECOWAS countries have been done by Dunning (1973a) and reiterated by Hood and Young (1979), in which out of a number of people surveyed, 115 confirmed political stability to be a strong precondition for an attractive investment climate. Also, 105 people said the same for currency exchange regulations and stability of foreign exchange and 20 for limitation on ownership.

As discussed in Chapter 3, the economic recovery of Ghana under the country's ERP launched in 1983 in a rather challenging environment re-engineered the country's economy and trade. In addition, investment, trade and economic development efforts under Ghana's "Vision 2020" - which aims at making Ghana a middle income country by the year 2020 - has opened many investment opportunities throughout the country. However, as pointed out by Dunning (1973a) and Hood and Young (1979) Ghana's "Vision 2020" efforts need to be backed by political stability (a major problem for most African countries), increased inward investments admist a sound and efficient macro-economic environment, which enhances foreign exchange regulations and stability.

Ghana's efforts at diversification of its products have also attracted FDI investors who are cashing in on the country's investment incentives, which among others include:

(i) exemption from payment of withholding taxes and dividends

(ii) permission for foreign investors to be able to take hold up to 100% shares in Ghanaian registered enterprises

(iii) free transferability of dividends or net profits, etc. and freedom to remit abroad proceeds of sale liquidation

(iv) tax holiday for 10 years and not more than 8% thereafter

(v) guarantee against expropriation

(vi) equal status for foreign and domestic investors

Ghana's friendly investment climate, which has seen investors such as Ashanti, Terberabie and Abosso gold mining companies extracting gold for exports, has largely succeeded in pushing the country up in terms of social stability and international credibility to some extent. The Pioneer Canning Company and Afko (Gh.) Ltd. foreign investment tuna canning companies in Tema-Ghana, are also materialisations of Ghana's enabling investment climate. There are also the foreign investments of Golden Tulip, La Beach (Lonhro holds majority shares in this hotel) and La Palm Beach five star hotels, which can be used as evidence for the liberalised and increasingly attractive investment climate in the country.

It can be argued that Ghana's current investment climate can be an enabling one for foreign investment. This conviction stems from the fact that in 1999, 972 foreign investment projects were registered with the Ghana Investment Promotion Centre (GIPC) in Accra (See Appendix 1). Out of these foreign investments, the United Kingdom tops with 96, China 83, India 78 and the United States of America, 71. Most of these companies are already operational while the rest are in start-up stages. About 4,000 jobs have been created as at 1998 with backward and forward linkages with agriculture and industry.

Ghana's investment climate is strongly supported by government efforts to sustain sound and transparent macro-economic and financial polices with a liberal investment framework. However, it must be stressed that inflation must continue to fall further and the exchange rate mechanism must remain competitive as argued by Fry (1993 and 1994), Lall and Streeten (1977), Dunning (1973a), Hood and Young (1979) and Ahiakpor (1990) if more FDI is to be attracted into the country.

Ghana has to do more work to improve further the credibility and sustenance of what has so far been achieved (e.g. infrastructure) so that it positively impacts on the economic growth and development of the country as argued by Ahiakpor (1990). More pre-development conditions for *"take off"* must be seen accomplished in the country to attract yet more investments as stressed by Rostow (1971), Lewis (1954) and Todaro (2000).

As discussed earlier in the chapter, weaknesses in Ghana's legal system - uncertainty whether contracts will be honoured and, if not, what redress was available - must be addressed and totally eradicated. Investors must be assured of transparent and genuine business in Ghana. Government must remain strongly committed to creating and sustaining the enabling environment for private sector activity.

6:7:0 Conclusion

This chapter has outlined and discussed Ghana's current economic and trade structure and performances and how these relate to the country's investment climate. The country's agriculture has been singled out as the greatest contributor to the economy of the country although as suggested by Ahiakpor (1990), Kirzner, (1973), Adam Smith (1976), and Lall and Streeten (1977), this could be improved through diversification. There is the need for Ghana to embark on mechanised agriculture to boost production for both domestic consumption and export possibly with the help of FDI.

Industry, which includes manufacturing and mining, contributes to the foreign exchange earnings of Ghana (MacDougall, 1960). But, again, industry will earn even more foreign exchange for Ghana's economy if the country embarks on a mass industrialisation of the major cities and industrial towns in the country to increase manufacturing. This could facilitate the canning and storage of fresh tomatoes and other agriculture produce during the bumper harvest season, for

example, for domestic use, export and in lieu of the lean season. That is, transforming raw materials into processed and semi-processed products as suggested by Kirzner (1973) and Adam Smith (1976).

Industry should also oversee the processing of Ghana's mineral products into manufactured goods for value addition and export. Ghana's gold and diamonds, for example could earn the country much more foreign exchange if they are processed into "world class" jewellery and ornaments for exports possibly with the help of FDI as argued by Kirzner (1973), Adam Smith (1976) and Ahiakpor (1990).

Ghana's services sector has also been discussed. This important sector - which deals, among others, with financial, economic, education and health services – need to be developed further and high levels of performances sustained to meet international standards. This is important because, most of the development preconditions that attract foreign investors, enhance trade promotion and create that enabling investment climate for LDCs lie within this sector of Ghana's economic structure as argued by Rostow (1971), Lewis (1954) Harrod and Domar (1950) and Todaro (2000).

The trade structure and performances of Ghana have seen improvements mainly in the 1990s. There is, however, the need for Ghana's investment and trade to be re-directed towards other developed countries rather than its former colonial

ruler if the country is to widen its horizon for investment and trade benefits. Stronger and more transparent trade and export policies must be developed further to enhance foreign investment as well as Ghana's place in world trade.

The findings discussed in this chapter have important implications for Ghana's investment attraction and trade promotion in the country's quest for economic development. The Empirical Evidence of these is discussed in the next chapter, Chapter 7.

Chapter 7

Findings: Investment Attraction And Trade Promotion: Ghana's Empirical Evidence

7.0 Introduction

This chapter presents the results of empirical work carried out on the effects of investment attraction and trade promotion on Ghana's economic development. Section 7.1 discusses the variable identification process. Section 7.2 explains the nature and sources of data collected and also discusses the variables that were employed in testing the research hypotheses. Section 7.3 analyses the statistical results concerning the first hypothesis developed in chapter 5, which states that the Attraction of Foreign Direct Investment into Ghana depends upon the *Development Preconditions in the country.* Finally, section 7.4 is concerned with the statistical analysis of the second hypothesis, which relates *Trade Promotion Activities in Ghana to Foreign Direct Investment Attraction.*

7:1:0 Identification Of The Development Precondition Variables For The Attraction Of FDI Into Ghana

The theoretical literature on the determinants of foreign direct investment is copious. However, when it comes to the empirical scrutiny of these determinants, researchers are faced with a number of difficulties in terms of data availability and data harmonisation. This section of the chapter is concerned with the

discussion of the key determinants of FDI and the operationalisation of these variables in the context of FDI attraction to Ghana.

Figure 7.1 provides a schematic representation of the variable identification process of development preconditions for the attraction of FDI into Ghana. Broadly speaking, these developmental variables can be classified into five categories:

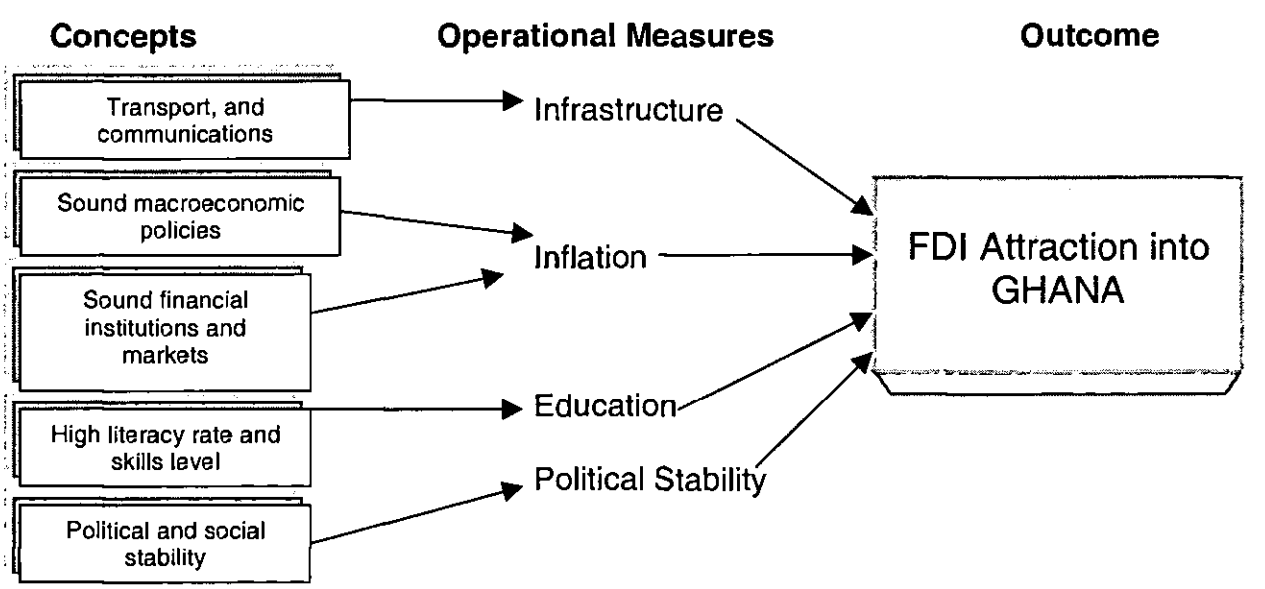
- Transport (particularly road and waterways) and communications
- Sound macroeconomic policies
- Sound financial institutions and markets
- High literacy rate and skills level
- Political and social stability

It is noteworthy that in the era of increased globalisation of the world economy, transport and communications constitute an important set of development preconditions for attracting the volume of foreign investment in most Less Developed Countries (LDCs). In investigating the impact of these factors on FDI in the host country, it is natural to use a composite index of data on individual components of transport and communications (such as road network, waterways, telephone lines, etc.). However, the absence or incompleteness of data in LDCs such as Ghana necessitates the use of proxy variables. One such proxy variable for transport and communications is infrastructure expenditure. Increased expenditure on transport and communications infrastructure would attract foreign

direct investment, acting as a catalyst to sustainable economic activities in all sectors of the economy, particularly in manufacturing industries where foreign investors have comparative advantage. Good and adequate accessible road networks, effective transportation systems and efficient communication systems would spur increased business activities in manufacturing, mining, agriculture, and other industries.

It is needless to emphasise the importance of infrastructure development for nation building. A dynamic economy must have properly developed physical and social infrastructure, including constant power supply, telecommunications, water supply, transportation system (road, railways, airports, waterways) and other social amenities.

Figure 7.1 The Variable Identification Process



In addition to infrastructure, foreign investors often look for sound macro-economic policies as well as evidence of stability of policy. This precondition is an important determinant for FDI since a government that often reverses its policy stance is unlikely to be trusted by foreign investors. Related to this development precondition is the issue of sound financial institutions and markets. A number of variables are often used to empirically capture the effects of both sets of preconditions on foreign direct investment. These include key economic indicators such as inflation rate, exchange rate, growth rate of gross domestic product (GDP), and public sector borrowing requirement. It should be noted that low inflation rate and realistic (equilibrium) exchange rate together with efficient, credible and transparent banking/financial institutions as well as stable and consistent regulatory framework for monetary policies provide strong motivation for foreign investment in the host country.

Human capital is yet another development precondition for FDI attraction. A skilled and educated labour force is needed for the efficient operation of activities of multinational enterprises operating in LDCs. In fact, a number of empirical studies have found that a threshold level of human capital must be present in an economy before foreign direct investment could impact positively on economic growth of the host country (Balasubramanyam, Salisu and Sapsford, 1999) A number of alternative measures of human capital have been suggested in the literature, including education expenditure, school enrolment, educational

attainment, the ratio of skill to unskilled workers, etc. In the present study, we use education expenditure as a proxy variable for human capital.

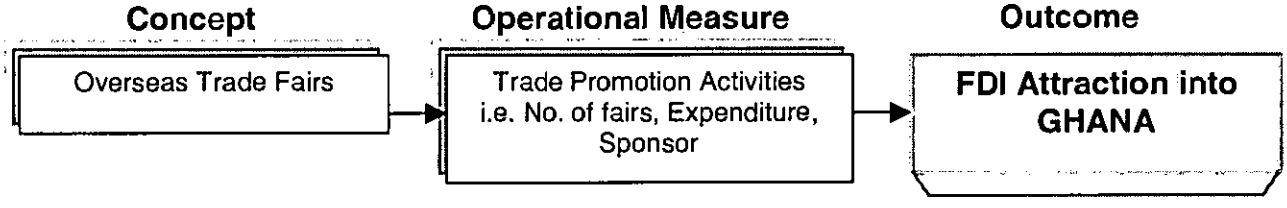
As Figure 7.1 shows, the literature on FDI attraction cites political stability and social cohesion as a crucial development precondition in influencing FDI inflows [(Rostow 1971, Balasubramanyam 1984, Lim 1983, Ahiakpor 1990, Balasubramanyam and Salisu, 1991)]. For instance, the well-publicised civil wars and numerous coup d'etats in some countries of Africa (e.g. Angola, Sudan, Liberia and Sierra Leone) and Latin America have discouraged many potential foreign investors from investing in these countries. As is the case with all the other development preconditions, the concept of political and social stability is gauged by a number of proxies, including number of industrial strikes, frequency of changes in government, and ethnic conflicts. In this study, however, this precondition is proxied by the number of industrial strikes.

Finally, business facilitation process plays an important role in attracting foreign investors to a host country. In the case of Ghana, business facilitation is largely associated with overseas trade fairs – a concept that constitutes an element of the study's second hypothesis, which relates trade promotion activities to FDI attraction into Ghana.

Overseas trade fairs play an important role in both promoting trade and attracting FDI. A number of operational measures for overseas trade fairs often include

expenditure on trade promotion activities, number of trade fairs and the type of sponsorship for such trade fairs. Figure 7.2 provides the link between these proxy variables and the FDI attraction in Ghana. The justification for these proxies lies in the assumption that consistent and effective participation in overseas trade fairs by LDCs put them in a better stead to meet with potential foreign investors for discussing appropriate investment projects. Since most LDCs are unable to financially and logistically undertake such overseas trade fairs, sponsorship by developed countries and international organisations such as the EU, WTO, UN and IMF and World Bank is crucial.

Figure 7.2 Business Facilitation And FDI Attraction



In summary, foreign investors, particularly foreign multinational enterprises, seek good infrastructure, a broad internal market, sound economic fundamentals (such as low inflation, interest rate and exchange rate), a skilled workforce, a stable political and social environment and local enterprises with sufficient technological capacity to produce parts and components for them according to the rigid specifications of the global market. This, therefore, explains why nearly three-quarters of global FDI is concentrated in the developed countries

themselves (USA, Japan and European Union). It is therefore not surprising that MNCs are very cautious and selective in their foreign investment decisions. They are only interested in the national factors that will give them the highest profits without incurring great risks. They are particularly attracted by the technical capacity and productivity of the workers, by the opportunities for sub-contracting to domestic firms with technological capabilities, by good infrastructure, by the size of the domestic market, by the legal security and the political stability of a country and by stability of economic policy. In addition, business facilitation is required to sensitise potential investors on the opportunities for profitable investment in LDCs particularly when such potential investors had a negative perception about the host country.

7:2:0 The Nature And Sources Of Data

From the foregoing analysis the development precondition variables used in the statistical analysis are infrastructure expenditure, education expenditure, inflation, and number of strikes. These, along with data on foreign direct investment in Ghana, constitute the dataset used in testing our first hypothesis, which links the development precondition variables to FDI attraction in Ghana.

Data on these variables were collected from various sources as contained in Table 7.1

Table 7-1 Data Sources In Ghana By Year And Variables[1]

SOURCES / INSTITUTION	DATA	YEARS	VARIABLES
The Ghana Statistical Service	Total Yearly Expenditure on Infrastructure (Roads, Waterways, Transport & Communications), Education And Ghana's Annual Inflation Levels for 30 years.	1966-1997	Infrastructure, Inflation, Education, Existing FDI
Ghana Ministry Of Finance And Economic Planning	Total Yearly Expenditure on Infrastructure (Roads, Waterways, Transport & Communications), Education And Ghana's Annual Inflation Levels for 30 years.	1966-1997	Infrastructure, Inflation, Education, Existing FDI
Ghana Labour College	Yearly Industrial Unrest In Ghana (Civil Strike Actions) for 30 Years	1966-1997	Political Stability
Ghana Investment Promotion Centre	Statistics On Registered FDI Projects In Ghana	1994-1999	Existing FDI
Institute Of Statistical Social And Economic Research (ISSER) University of Ghana, Legon.	Total Yearly Expenditure on Infrastructure (Roads, Waterways, Transport & Communications), Education And Ghana's Annual Inflation Levels for 30 years.	1966-1997	Infrastructure, Inflation, Education, Existing FDI
Bank Of Ghana (Central Bank of Ghana)	Total Yearly Expenditure on Infrastructure (Roads, Waterways, Transport & Communications), Education And Ghana's Annual Inflation Levels for 30 years.	1966-1997	Infrastructure, Inflation, Education
Ghana Ministry Of Trade : Trade Fair Authority	Number Of Ghana's Participation In Overseas' Trade Fairs For 15 Years	1985-1999	Overseas Trade Fairs

[1] Due to changing functions and roles in Ghana's public sector agencies, data on some variables were collected from more than one agency.

The study was confined to a period of 30 years (1966-1998) due to data unavailability for earlier and later periods. Nonetheless, this 30-year period coincides with eras of increased economic reforms, liberalisation, democratisation and outward orientation of the Ghanaian economy.

Table 7.2 shows the data for the relevant variables in nominal terms. The FDI data represents annual inflows of foreign direct investment into Ghana. Infrastructure denotes the annual government utilised expenditure on roads, waterways, transport and communications, whilst Education represents actual annual government expenditure on Education in Ghana. The Inflation variable shows the annual percentage change in Ghana's consumer price index. Finally, the number of strikes represents the annual total industrial strikes in both private and public sectors of the economy.

It should be noted, however, that in the empirical estimation and analysis all financial data were converted to real series using appropriate deflators. For instance, the data on foreign direct investment, infrastructure expenditure and education spending were all deflated by the consumer price index, with 1977 as a base year. The use of real, as opposed to nominal, series is to control for inflationary movements between years and to allow for direct comparison of data over time.

Table 7-2

Annual Ghana Government Expenditure On Infrastructure, Education; Annual Inflation Rates, Number Of Industrial Strikes And FDI Levels.

YEAR	Infrastructure (Million ¢)	Education (Million ¢)	P. Stability: No of strikes	Inflation Rates %	Existing FDI (Million ¢)
1966	10.558	5.715	29	11.29	57.200
1967	16.170	6.612	41	8.06	33.300
1968	14.675	4.449	37	7.90	17.200
1969	24.424	6.149	51	7.31	10.400
1970	34.931	9.390	56	3.78	94.000
1971	40.604	11.534	79	8.80	43.200
1972	21.782	5.881	10	10.10	16.200
1973	26.898	13.655	13	17.70	17.700
1974	61.409	33.550	43	18.13	14.400
1975	98.880	69.379	29	29.82	15.400
1976	146.300	102.643	46	56.80	27.300
1977	166.804	107.165	52	116.50	91.800
1978	145.005	114.625	49	73.30	20.100
1979	119.987	60.729	43	54.20	2.200
1980	431.600	77.400	62	50.10	23.400
1981	260.000	82.300	69	116.50	44.800
1982	283.400	90.100	10	22.30	45.100
1983	775.200	130.110	16	122.80	290.000
1984	1,683.400	135.900	9	39.60	72.000
1985	3,370.100	402.100	12	10.50	304.500
1986	3,515.900	657.700	19	24.60	516.000
1987	8,419.100	1,686.000	22	39.8	783.100
1988	11,435.000	2,358.800	11	31.40	1,011.700
1989	13,611.800	3,149.000	21	25.20	2,025.000
1990	13,881.100	6,696.300	24	37.30	2,206.000
1991	25,713.400	4,343.890	24	18.00	14,431.000
1992	48,304.400	5,569.000	24	10.00	12,632.000
1993	62,413.300	6,774.300	35	25.00	81,116.000
1994	75,576.000	5,037.000	9	24.90	223,200.000
1995	181,243.000	32,367.000	25	59.50	127,842.000
1996	181,160.000	181,160.000	41	46.60	196,469.000
1997	245,682.000	171,550.000	35	27.90	167,713.000
1998	321,041.000	409,220.000	N/A	17.10	N/A

SOURCE: Ghana Statistical Service: Quarterly Digest of Statistics (Various Issues)

In the case of overseas trade fairs (used in assessing the relationship between Ghana's trade promotion activities and FDI attraction in Ghana – our second hypothesis -, however, the data is limited to only 15 years (1983-1998). This shorter time duration was largely due to the absence of such activities during the earlier period. It is noteworthy that during the 1960s and the 1970s, Ghana pursued an industrialisation strategy based on inward substitution policy. Such a strategy acted as a disincentive for overseas trade fair missions. It is therefore not surprising that data on Ghana's overseas trade fairs for earlier periods were missing from the relevant data producing institutions in Ghana. It should also noteworthy that Ghana embarked on credible Economic Recovery Programme (ERP) in 1983.

7:3:0 Data Analysis

The methodological framework for testing the two hypotheses of this study is based on two types of statistical techniques. In evaluating the proposition that development preconditions influence foreign direct investment attraction in Ghana, we rely on the use of econometric regression analysis using the MICROFIT statistical software. The second hypothesis, which links overseas trade promotion to FDI attraction was, however, tested using the discriminant analysis based on Statistical Programme for the Social Sciences (SPSS) software. This technique was also used to test the robustness of the findings based on the regression analysis in the case of the first hypothesis.

7:3:1 Testing Hypothesis 1

7.3.1:1 Regression Analysis

Hypothesis 1 states that *Development Preconditions in Ghana influence the attraction of Foreign Direct Investment into the country.* In testing this hypothesis, we specify a regression equation of the following form:

$$\text{Log}FDI_t = a + b_1\text{Log}INFRA_t + b_2\text{Log}EDUC_t + b_3\text{INFL}_{t-1} + b_4\text{Log}POLSTAB_t + b_5\text{Log}\ FDI_{t-1} + \varepsilon_t \qquad (7.1)$$

Where:

FDI = Foreign Direct Investment in Ghana (Million Cedis, constant 1977 prices)

INFRA = Infrastructure expenditure (Million Cedis, constant 1977 prices)

EDUC = Education expenditure (Million Cedis, constant 1977 prices)

POLSTAB = Annual total number of industrial strikes in Ghana

INFL = Inflation (annual percentage change in consumer price index, 1977=100)

a, b_1, b_2, b_3, b_4, b_5, are parameters to be estimated

ε = residual or error term

t = current time period (t-1 immediate past period)

Log denotes that all variables were transformed to natural logarithm.

The use of logarithmic transformation of the variables has two advantages: first, it allows for the interpretation of relevant estimated coefficients of the regression equation as elasticities (the degree of responsiveness of the dependent variable – FDI – to each of the explanatory variables). For example, the estimated

coefficient (b_1) represents the elasticity of FDI with respect to INFRA (infrastructure expenditure on transport and communications). Second, the logarithmic transformation has the tendency to rectify any unintended functional form misspecification arising from non-linear relationships in the model.

It should be noted that the lagged values of inflation and the dependent variable are used in the model. This is because potential investors look at past inflation levels before deciding to invest in a host country. In the case of lagged value of FDI, however, it is widely believed that existing levels of foreign investment are dependent upon previous levels.

The *a priori* expectations on the estimated coefficients of the model are as follows: A positive relationship between FDI and INFRA is expected. So too is the relationship between FDI and EDUC. In both cases, it is expected that the higher the real expenditure on infrastructure and education, the higher would be the level of FDI attracted into Ghana. It is also hoped that the higher the previous level of FDI, the higher would be the current level of FDI. In contrast, however, both INFL and POLSTAB (proxied by number of strikes) are expected to yield negative coefficients. Inflation erodes the value of assets and returns on investments, which then discourages potential investors. Similarly, the higher the number of industrial strikes (a sign of political instability) the lower would be the level of FDI in a host country. So, we expect the coefficients b_1, b_2, and b_5 to be positive and b_3 and b_4 to be negative.

The equation was estimated using ordinary least squares (OLS) method and the diagnostics were used to check for possible econometric problems of multi-collinear relationships between explanatory variables, autocorrelation of residual (error) terms, and misspecification of the equation. Table 7.3 shows the estimated regression equation.

Table 7:3 Estimated Regression Equations

Dependent Variable is LOGFDI

Regressor	Coefficient	Standard Error	T-Ratio [Prob.]
INTERCEPT	-3.9956	3.6530	-1.0938 [.284]
LOGINFR	.91186	.44630	2.0432 [.051]
LOGEDU	-.038356	.23138	-.16577 [.870]
INFL1	-1.1980	.60281	-1.9873 [.058]
LOGPOL. STABI.	-.053608	.27902	-.19213 [.849]
LOGFDI1	.46112	.17043	2.7056 [.012]

R-Bar Squared	=	.75561
F-Stat	=	7.3521 [0.0000]

Diagnostic Tests

A. Serial Correlation	=	.45231 [.501]
B. Functional Form	=	.67770 [.410]
C. Normality	=	.021495 [.989]

Note: Numbers in square brackets are probability values.

The estimated regression equation above shows that the coefficients of two development precondition variables (infrastructure and inflation) possess the

'correct' (expected) signs and are statistically significant at the 5% level. The results suggest that a 1% increase in real expenditure on transport and communications, other things being equal, would lead to a 0.91% increase in FDI in Ghana. In the case of domestic price changes, however, a 1% increase in inflation in Ghana would result in a 1.2% decline in FDI in the country. It should also be noted that the coefficient on the lagged value of FDI is positive (as expected) and statistically significant at the 1% level.

The rest of the development precondition (independent) variables are not, however, statistically significant. In the case of political stability (or instability so to speak), the estimated coefficient possesses the expected (negative) sign but the margin of error (level of significance) is too high (i.e. confidence interval is too low) to be relied upon. In the case of education variable, the result is contrary to theoretical expectations even though it is not statistically significant.

Although two of the precondition variables are not statistically significant, the overall goodness of the estimated regression equation is reasonable as demonstrated by the high coefficient of determination (R-bar squared). This indicator suggests that nearly 76% of the variability in FDI is accounted for by changes in the independent variables. The F-statistic also shows that the independent variables are jointly and severally significant in attracting FDI in Ghana.

The model's diagnostics clearly show that the OLS estimates do not suffer from the three econometric problems of autocorrelation, mis-specification of functional form and non-normality of residuals. The probability value associated with each of the three diagnostic test statistics is very large to warrant any meaningful and significant conclusions. None of the probability values is 0.05 or lower to suggest the presence of econometric problems at that particular significance level. Thus, the diagnostics provide strong support to the use of OLS as opposed to other types of econometric estimation methods.

Given the adequacy of the OLS procedure and dropping the two development precondition variables that were statistically insignificant in Table 7.3, we re-estimated the regression equation with only three independent variables (infrastructure, inflation and lagged value of FDI). Table 7.4 shows the results of the revised equation.

As can be seen from the table, all estimated coefficients are statistically significant at the 5% level or lower and they possess the expected signs. The overall goodness of the model has also increased, as 77% of the variability in FDI in Ghana is explained by changes in the independent variables. The diagnostics (not reported here) also show no evidence of any econometric problems discussed above.

Overall, the results of the regression analysis appear to lend support to the

hypothesis that development preconditions such as infrastructure, low inflation and previous FDI commitments tend to attract more FDI into Ghana. A summary of the results is provided in Table 7.5.

Table 7.4 Estimated Regression Equations (revised equation)

Dependent Variable is Log FDI

Regressor	Co-efficient	Standard Error	T-Ratio	[Proba}
Intercept	-3.8982	3.4319	-1.1359	[.266]
LogInfra	.86024	.37649	2.2849	[.030]
Inflation-1	-1.2184	.57120	-2.1331	[.042]
LogFDI-1	.45462	.15867	2.8652	[.008]

R-Bar Squared = .77337
F-Stat = 10.54 [.000]

Table 7.5 Summary Of The Results From The Hypothesis Testing Of The Impact Of Development Preconditions On FDI In Ghana.

Variables	**Significance**
Previous FDI commitment	√
Political Stability	x
Inflation	√
Infrastructure	√
Education	x

Key: √ = supported x = not supported.

7.3.2 Discriminant Analysis

The results from the regression analysis above have provided strong support to the research hypothesis which links development preconditions to FDI flows into Ghana. However, the volume of FDI has fluctuated considerably over the sample period. The key question is which of these development preconditions have been instrumental in distinguishing between high and low periods of FDI in Ghana and what lessons for FDI policy could be learnt from this analysis? To address this and other related issues, we utilise a statistical technique known as discriminant analysis. As the name suggests, discriminant analysis is a statistical tool for identifying relevant explanatory variables, which distinguish between two or more groups of cases of the dependent variable. It is well suited for categorical dependent variables, and a number of studies have utilised it to assess the determinants of FDI (Root and Ahmed, 1979). It could provide a more satisfactory result than a regression analysis particularly when dealing with a small data set.

The discriminant analysis model for evaluating the development preconditions for FDI attraction into Ghana can be stated as follows:

$$\text{Log}FDI_t = a + b_1\text{Log}INFRA_t + b_2\text{Log}EDUC_t + b_3\text{INFL}_{t-1} + b_4\text{Log}POLSTAB_t + b_5\text{Log}\,FDI_{t-1} + \varepsilon_t \qquad (7.2)$$

Where all variables in Equation 7.2 are as defined in Equation (7.1) except that

the dependent variable ($LogFDI_t$) is now categorical instead of continuous. In constructing the two categories, we obtain the average of cumulative FDI in Ghana from 1966 to 1998. FDI levels below the average are classified into Group 1 of the dependent variable, and FDI levels above the average are classified into Group 2. The rest of the independent variables are as defined in Equation 7.1.

The SPSS statistical software allows for estimation of the discriminant function coefficients (similar to estimated regression equation coefficients) for each of the independent (predictor) variable. Table 7.6 shows the standardised discriminant function coefficients.

Table 7.6 Standardised Canonical Discriminant Function Coefficients

	Function
	1
Log Infra	.338
Log FDI-1	.395
Log Edu.	-.057
Inflation-1	.655
Log Political Stability	-.332

It is noteworthy that the signs on the discriminant function coefficients do not have any special meaning (as is the case in regression analysis). Since the dependent variable is treated as a nominal measure, we cannot think in terms of

positive or negative associations. As stated earlier, the dependent variable (LogFDI) is a categorical variable and hence the signs on the estimated coefficients are meaningless.

The measure, which determines the significance of estimated coefficients, is called the Wilk's Lambda. The smaller the Wilk's Lambda of a variable, the more significant is that variable. As Table 7.7 shows, infrastructure appears to be the important development precondition for the attraction of FDI in Ghana. This is followed by previous FDI commitment, then education, inflation and political stability. This result is closely in line with that found from the regression analysis. The only difference, however, is that all variables are statistically significant in the discriminant analysis model, and that education, which was insignificant in the regression, appears to be a major important factor in investment decision of foreigners.

Table 7.7 Evaluation Of Statistical Significance Of Independent Variables

Variable	Wilks Lambda	F-ratio	Level of Significance
Infrastructure	.349	50.303	.000
FDI	.364	47.140	.000
Education.	.511	25.802	.000
Inflation	.757	8.679	.007
Political Stability	.945	1.576	.220

The above result is mirrored by the structure matrix, which shows the strength of association between the dependent variable and each of the independent

variables. Table 7.8 shows infrastructure is highly correlated with FDI, followed by previous investment commitment, education, inflation and political stability.

Table 7.8 Structure Matrix

	Function
	1
Log Infrastructure	.723
Log FDI –1	.700
Log Education	.518
Inflation –1	-.300
Log Political Stability	.128

The Wilks' Lambda for the overall model confirms the explanatory power of the discriminant analysis model. The low Wilks Lambda (Table 7.9) indicates a very good discriminating power of the model. This shows that all five independent variables are jointly statistically significant at the 1% level. Clearly, this corroborates the findings from the regression analysis discussed earlier. The above findings, therefore, lends support to the hypothesis that development precondition positively influence FDI attraction into Ghana.

Table 7.9 Wilks' Lambda

Test of Function(s)	Wilks' Lambda	Chi-Square	Df	Sig.
1	.219	37.175	5	.000

7.4:0 Testing Hypothesis 2

Hypothesis 2 states that *Inconsistent Trade Promotion activities in Ghana negatively influence Foreign Direct Investment attraction into the country.*

The above hypothesis is concerned with the assessment of the relationship between Ghana's trade promotion activities (participation in *Overseas Trade Fairs*) and FDI attraction in Ghana since the country's Economic Recovery Programme in 1983. Owing to the small sample size of the data, we rely solely on the discriminant analysis technique to evaluate this hypothesis. The discriminant analysis function can be stated as follows:

$$\text{Log}FDI_t = a + b_1\text{SPONSOR}_t + b_2\text{Log}EXPEND_t + b_3\text{LogTOUR}_t + \varepsilon_t \qquad (7.3)$$

Where:

SPONSOR = A dummy variable for the type of overseas trade fair sponsor (1 = EU, 0 = other)

EXPEND = Total expenditure on trade promotion activities (Million Cedis in real terms)

TOUR = Number of overseas trade fairs per annum

FDI = Categories of FDI, as defined in Equation 7.2.

Tables 7.10 and 7.11 show the estimated discriminant function coefficients and the Wilk's lambda respectively. The results suggest that only the estimated coefficient for trade fair sponsorship is statistically significant. The rest of the independent variables (number of fairs and expenditure) are not statistically significant.

Table 7.10 Standardised Canonical Discriminant Function Coefficients.

	Function
	1
Log Expenditure	-.932
Log Fair	1.110
Sponsor	1.307

Table 7.11 Evaluation of Statistical Significance of Independent Variables

Variable	Wilks Lamba	F-ratio	Level of Significance
Sponsor	.464	12.692	.004
Expenditure	.974	2.94	.599
Fairs	.983	.186	.675

The structure matrix (Table 7.12) also confirms the above finding. It suggests that the most important trade promotion variable, which impacts positively upon FDI attraction in Ghana is the type of sponsorship. This may not be surprising because potential investors from the European Union (EU) and western countries are more likely to attend trade fairs organised by the EU (on behalf of Ghana) than that organised directly by Ghanaian missions abroad.

Table 7.12 Structure Matrix

	Function
	1
Sponsor	**.769**
Log Expenditure	**.117**
Log Fair	**.093**

Pooled within-groups correlations between discriminating variables and standardised canonical discriminant functions.
Variables ordered by absolute size of correlation within function.

Table 7.13 Wilks' Lambda

Test of Function(s)	Wilks' Lambda	Chi-square	df	Sig
1	.339	10.273	3	.016

Although only one independent variable (sponsor) was statistically significant, the the Wilks' Lambda for the overall function (Table 7.13) shows that the three variables put together tend to influence the level of FDI in Ghana.

7:5:0 Conclusions

The chapter has utilised the statistical techniques of regression analysis and discriminant analysis to empirically test the study's two main hypotheses relating to (1) the impact of development preconditions on FDI and (2) the role of overseas trade fairs in attracting FDI to Ghana. The main conclusions from the econometric estimation for the first hypothesis can be summarised as follows:

- Infrastructure impacts positively and significantly on FDI inflows, as foreign

investors tend to look for evidence of strong and adequate infrastructure development in the country.

- There is an inverse relationship between inflation rate and volume of FDI in Ghana. The lower the inflation rate the higher the FDI inflows, and *vice versa*.
- Previous level of FDI commitments is positively correlated with existing level of FDI in the country.
- Other development preconditions used in the model (education and political stability) have been found to be weak or impotent in attracting FDI into Ghana.

Application of the discriminant analysis not only corroborated the above regression analysis findings, but it also identified, in order of priority, the important development indicators. The results of the discriminant function analysis suggest that infrastructure is the most important development factor for attracting FDI into Ghana, followed by education, inflation and political stability. The policy implication of this finding is that if substantial amounts of FDI were to garnered in the future, then appropriate infrastructure must be put in place, a well educated labour force must be nurtured, inflation must be kept under control, and a stable political and social environment must be cultivated.

In the case of the second hypothesis, however, there was little evidence on the robustness of the findings. The discriminant analysis result suggests that only the type of sponsorship of overseas trade fairs was the determining factor in

attracting foreign investors to Ghana. This result suggests that the number of overseas trade fairs or expenditure spent on organising trade promotions does not matter. What matters is who organises or sponsors the trade fair. The implication of this finding is that Ghanaian authorities should liaise closely with overseas government agencies in organising the trade fairs abroad, as potential investors from the developed countries tend to rely heavily on advice given to them by their governments.

These and conclusions from other chapters of the thesis will be pulled together in the next chapter with a view to drawing comprehensive recommendations for theory, practice and policy.

Chapter 8

Conclusion, Contribution And Recommendation

8:0 Introduction

This chapter concludes the research with a summary, interpretation and general discussion of findings, and implications for Ghana as a country within ECOWAS with recommendations.

Section 8.1 reviews the problem definition and research objectives of the study. Section 8:2 discusses the findings in chapters 6 and 7 focussing on the influences of development preconditions on investment attraction and trade promotion into Ghana. The section provides an outline of the thesis' contributions. It also conducts a general discussion on the implication of the empirical evidence in chapter 7 on Ghana. The impact and contribution of the suggested *Ghana Investment and Trade Framework* developed in Chapter 5 is also discussed in section 8.3. In section 8:4, the chapter discusses lessons to be learnt from the huge East Asia investment and trade success. In section 8.5, Ghana's economic growth and development are discussed. Section 8:6 discusses the need for the reduction of damage to the environment.

Suggestions for the need for further research in general and in specific areas of investment attraction, trade promotion and economic development are also discussed in section 8:7.

8:1:0 Scope Of The Research

8:1:1 Problem Definition and Research Objectives

The recent performance of the Ghanaian economy provides a sobering reminder of the scale of the challenge that faces the country. After more than 15 years of donor-supported structural reform - a programme subsequently copied in many other parts of Africa – results have been mixed. Despite such misgivings, donors – notably the World Bank – insist that Ghana's development strategy is paying dividends. World Bank officials argue that the economy has changed dramatically from 17 years ago, although they conceded it could have changed so much more. Growth, they continued, has been good by African standards, but insufficient for what is needed.

It was this inability of Ghana, within ECOWAS, to successfully achieve sustained high levels of productive investment, trade and export and growth in economic development, over the years, that has been one of the principal motivations towards this research.

As stated several times in the study, a number of studies establishing relationships between *export growth* and *economic growth* have been conducted mainly because of increased exports in the Newly Industrialised Countries (NICs) of East Asia and Latin America by Michaely (1977a) Balassa (1978 & 1984), Kavoussi (1984), Tyler (1981), Williamson (1978) among others. Lim (1983) and Balasubramanyam (1984) also carried out studies on incentives to FDI attraction

in developing countries. However, the fact that these two research areas mainly focussed on the advanced developing countries of East Asia and Latin America, opportunities have opened up for similar studies to be directed towards the least developed countries such as Ghana, ECOWAS and Africa as a whole. Very few studies have singled out investment attraction and trade promotion in economic development in an African LDC such as Ghana.

In their empirical evidences, Lim (1983) and Balasubramanyam's (1984) findings gave no support for the belief by governments of least developed countries that the provision of fiscal incentives is necessary for the attraction of foreign direct investment into these countries. They argued that the greater the generosity of these incentive programmes the greater would be the level of disincentives for such investment. Feder (1983) also concluded that, developing countries with a favourable export growth record tended to enjoy higher rates of growth of national income. His conclusions further confirmed that economies in developing countries that shifted resources into exports would gain more inward-oriented economies.

Also the studies have opened up opportunities for further investigation in most of the areas in investment, trade, export and economic development that have many similarities, particularly in other geographical areas e.g. Africa, other than those in which they were originally focussed.

Few investment attraction and trade promotion models on Ghana's economic development have specifically taken development preconditions and trade promotion activities into account as variables that may influence the level of FDI attracted into the country. This means that the process of establishing development preconditions, as theorised by Rostow (1971), Lewis (1954) and Todaro (2000) and by which investment attraction and trade promotion activities in Ghana ought to have efficiently operated, had not been extensively investigated. It is, therefore, found expedient that, there is the need for the following considerations to be taken into account in a new research design:

- an evaluation of FDI attraction in Ghana
- an evaluation of the existing development preconditions in Ghana
- a review of Ghana's current trade promotion activities
- the influence of Ghana's development preconditions e.g. *Infrastructure, Inflation, Education, Political Stability*, etc. on FDI attraction into the country on an individual basis
- the impact of Ghana's trade promotion activities e.g. number of, and total annual expenditure on Ghana's participation in *overseas trade fairs*
- the impact of the above on Ghana's economic development

In more specific terms, the research focus answered the following research questions:

- What are the key factors that contribute to successful FDI attraction and trade promotion in economic development?

- What lessons can Ghana, as a developing country within ECOWAS, learn from the huge East Asia investment and trade success story?
- Do the existence of development preconditions in developing countries like Ghana add value over time to increased levels of FDI attraction into the country?

To answer these questions, three major research objectives were established:

- Finding out the lessons that Ghana as a developing country within ECOWAS can learn from the successful investment and trade reforms in East Asia in order to improve its economic growth and development as observed by Agarwal, (1980), Ahiakpor (1990), Clower et al (1966) and Meier (1976 and 1984)
- Proposing an Investment and Trade Framework for Ghana
- Empirically investigating the relationship between Ghana's development preconditions of *Political Stability*, *Infrastructure*, *Education*, *Inflation*, *Overseas Trade Fairs* and FDI attraction in Ghana

8:1:2 Methodology

The identification of the research objectives above, coupled with the difficulties in gathering data in Africa in general made the researcher choose a research design that involved face-to-face interviews to collect primary data for the development of the *Ghana Investment And Trade Framework*. Secondary data

was from relevant Ghanaian institutions in order to more accurately assess the best variables to employ in the empirical evidence, and evaluate their impact on FDI attraction over the time period. These methods were employed to help generate the hypotheses guiding the study.

Co-operation of government officials at the relevant investment attraction and trade promotion institutions in Ghana facilitated access to both primary and secondary data. Other institutions such as the University of Ghana's Institute of Statistical Social and Economic Research (ISSER), the Ghana Labour College and Ghana Statistical Service as well as local export companies proved extremely useful during the data collection process. The importance attached to this method is the rich experiential knowledge that these organisations and companies possess as explained by Johanson and Vahlne (1977), and to which the researcher was exposed.

The difficulties concerned with "Getting In", "Getting On", "Getting Out" and "Getting Back" in doing research in Africa were discussed and lessons to be learnt outlined. This provided the African dimension to the traditional American and European ways of doing research in organisations as observed by Buchanan, Boddy and McCalman (1988).

8:2:0 Research Contributions

The principal objective of this study was to identify the impact of development preconditions and trade promotion activities on FDI attraction into Ghana. As hypothesised, the findings revealed that development preconditions of *Infrastructure* , low *Inflation* and existing *FDI* in Ghana had positive influences on the level of FDI attraction into the country.

8:2:1 Infrastructure

The development precondition of *infrastructure* was shown to have had positive influence on the level of FDI attraction into Ghana. This provides a useful measure for Ghana and the other ECOWAS countries on the need to step up the development of infrastructure – i.e. roads, waterways, information technology, transportation, communication, etc – in their respective countries more than the Ghana Government expenditure levels shown in Appendix 9 for example. This is important because this result also shows that potential foreign investors into developing countries were interested with the level and quality of technology, roads, communication facilities, waterways and airports and other transportation facilities in these countries that have the ability to be complementary to their particular investments.

To this extent, governments of LDCs such as Ghana and the other ECOWAS countries need to increase their expenditure on infrastructure to improve upon them. In addition, FDI could be vigorously sought through the transfer of some

To this extent, governments of LDCs such as Ghana and the other ECOWAS countries need to increase their expenditure on infrastructure to improve upon them. In addition, FDI could be vigorously sought through the transfer of some technology infrastructure into these countries as stressed by Rostow (1971), Kirzner (1973), Adam Smith (1976), Ahiakpor (1990), Clower *et al* (1966) and Todaro (2000) to establish a strong presence of this important development precondition. This contribution to economic development is important, because it shows clearly how inadequate the technology and infrastructure levels in the LDCs of Ghana, ECOWAS and developing Africa are to modern foreign technology imported by FDI into these countries, and the crucial need to establish them. Such adequate and appropriate infrastructure and technology levels virtually serve as magnets for FDI attraction into these countries. LDCs such as Ghana, ECOWAS and other African countries would find this contribution useful by replicating it for the improvement of their respective manufacturing, export, trade and economic development objectives.

8:2:2 Inflation

Another important result of the study is the level of importance that sound macro-economic policies and financial institutions – shown in the study by the development precondition of *Inflation* – have on FDI attraction for economic development in developing countries. Most ECOWAS and African economies experience exceptionally high inflation figures. In 1983, for example, Ghana experienced an annual average inflation rate of 122%. By the middle of 1998,

This remarkable decent of the level of inflation rates in Ghana, as shown in the study, positively impacted on the level of FDI that was attracted into the country in 1999 as shown in Appendix 1. In other words, potential investors in LDCs such as Ghana, ECOWAS and other African countries are concerned with financial indicators such as low inflation rates in order to decide which country to invest in.

Again this is an important contribution to Ghana, ECOWAS and Africa's FDI attraction objectives. Ghana's example confirms the need for these countries to pursue and sustain positive macro-economic and financial policies (e.g. regulation and control of the exchange rate mechanism, reliable and trustworthy financial institutions, positive attitude to foreign investors, low inflation, etc.) and create the enabling and attractive investment climate [(Dunning (1973a) Lall and Streeten (1977), Hood and Young (1979)] that would help attract FDI into their respective countries to help them transfer raw materials into processed and manufactured goods as argued by Kirzner (1973), Adam Smith (1976) and Brown (1993). This has the potential to enhance trade, export, and economic development as suggested by Ahiakpor (1990) and Clower *et al* (1966).

8:2:3 Political Stability

A few studies have generally referred to *Political Stability* as an important development precondition for FDI. But as Lim (1983) and Balasubramanyam (1984) have shown, political stability is "difficult to quantify" and where it is done,

the measures "may not be exact." They and other writers such as Balasubramanyam and Salisu (1991), Bhagwati (1985), Fry (1994 and 1993), Ahiakpor (1990), Dunning (1973a), Hood and Young (1979) and Lall and Streeten (1977) emphasised the "crucial" importance of political stability in FDI attraction and economic development to LDCs such as Ghana, ECOWAS and Africa. Consequently, whether or not the measurement of this crucial development precondition is difficult or not, its sustained pursuance should be of paramount importance and priority to these countries, particularly in their quest for investment attraction and economic development.

Results from regression analysis done in chapter 7, however, found political stability in Ghana not to be significant among other variables used. This means that Ghana's political stability, measured by the number of annual workers' strikes/unrest, was much too high to satisfy the efficiency of this development precondition in the country.

The importance of this contribution to development in developing countries is that potential investors will not be attracted to invest in any country that has high levels of workers' strikes, unrest and civil disobedience, coups d'etats, power struggles, etc. This result, in Ghana's case, is an important measure from which other African countries could learn. The lesson for Ghana itself is that, it is important that the country's industrial/workers' strikes/unrest level as observed and listed by Obeng-Fosu (1999) should reduce considerably if this important

development precondition is to play any significant part in the attraction of increased FDI into the country.

8:2:4 Education

Like political stability, the development precondition of *Education* was eliminated during the regression analysis done in chapter 7.

In Ghana, the general direction of education which appears to show increased preference towards pure academic knowledge than skills, technical, vocational and 'hands-on' training could be the one reason this development precondition failed to confirm itself as an influential determinant in Ghana's FDI attraction.

Most FDI and multi-national companies in developing countries mostly require more middle and lower level qualified personnel than those in senior management positions. In other words, the presence of skilled, technical and 'hands-on' trained local personnel serve as an incentive for foreign investment in developing countries since potential foreign investors require local skilled labour to operate their factories, plants and businesses. Again this result, in Ghana's case, is an important measure from which other African countries could learn.
This also confirms the hypothesis developed in chapter 5 in which the existence of significant levels of development preconditions was said to positively influence the level of FDI attracted into developing countries such as Ghana.

The contribution to investment attraction, trade and economic development is that, developing countries such as Ghana and the other ECOWAS countries need to focus on skills training which, and as Lewis (1954) argued, could attract investment projects to both rural and urban areas. Through the availability of local semi-skilled or skilled labour in the predominantly agriculture areas, raw materials produced could be easily transformed into value-added, processed and semi-processed products as suggested by (Kirzner (1973) and Adam Smith (1976) to increase export and trade to enhance economic development as argued by Ahiakpor (1990) and Clower *et al* (1966).

8:2:5 Trade Promotion Activities

Results achieved in the study showed that trade promotion activities in Ghana did not conclusively influence the levels of FDI attracted into the country. This was mainly attributable to the high levels of inconsistencies in Ghana's trade promotion activities expressed in terms of the country's *overseas trade fairs* participation. The number of times and the level of government expenditure of overseas trade fairs in Ghana were not consistent, particularly when the country failed to secure European Union sponsorship for participation in these fairs. Sponsorship for overseas fairs is shown in this study as a crucial conduit to foreign investment attraction, and LDCs such as Ghana and the other ECOWAS countries need to pursue it vigorously. This confirms the hypothesis developed in chapter 5 in which it was stated that, inconsistencies in trade promotion

activities of developing countries negatively influence FDI attraction levels into the country.

The contribution made to Ghana, ECOWAS and all of Africa is that it is important for governments of developing countries to allocate substantial percentages of their development budgets to trade promotion activities, such as consistent participation in overseas trade, seeking of sponsorship from developed countries and world organisations to attend these fairs in order to attract increased FDI into their countries. This is suggested and illustrated in the *Ghana Investment and Trade Framework* developed in chapter 5 (See Figure 5-3).

It is also concluded that Ghana needs to strengthen its trade promotion activities through an efficient use of Export Oriented (EO) trade policies. As discussed in the study, Import Substitution (IS) trade policies fail to enhance investment attraction and increased trade. The evidences of the Latin American and East Asia countries, which had shifted from IS policies to EO with diversification of products and succeeded in attracting more FDI and trade, were discussed earlier in the study.

8:3:0 The Ghana Investment And Trade Framework

The other major objective of the study was to develop a *Ghana Investment and Trade Framework* which would guide the country's policy decisions and strategies for investment attraction and trade promotion in economic

development. The contribution to Ghana, ECOWAS and other African countries, through this framework, is that the inputs included in the suggested *Ghana Investment and Trade Framework* constitute a solid base on which Ghana and other member countries of the community search for investment and expanded trade and need to be implemented in these countries. It can be argued that these measures provide one of the greatest chances (evidence from East Asia) of attracting increased investments into these countries to assist industrialisation for manufacturing, export, trade and enhance economic development.

This expanded export base, especially with the production of manufactured goods brought about by the contribution of the suggested *Ghana Investment and Trade Framework*, also has the potential to serve as an "engine of growth," and sustained and steady attraction of significant flows of FDI to continue the stimulation of foreign and domestic private investment remains crucial.

8:4:0 Lessons From East Asia

One other objective of the study is that Ghana learns from the huge investment and trade success of the East Asia trading countries.

The East Asia investment and trade success story was a solid case of sincere devotion to investment and trade reforms that engendered efficient and increased trade, externally oriented economic growth strategies, unrestricted capital flows, unhindered labour movement, open doors to FDI inflows and an open arm attitude to foreign capital and technology. Ghana within ECOWAS

should endeavour to replicate this possibly with the help of the study contribution of the *Ghana Investment and Trade Framework.*

The East Asia trade and investment reforms were able to create a substantial industrial and service bases with significant global market leadership in industries like electronics, automotive, watches, petroleum products, construction, air transportation, banking, and even the old and tired garments and textiles. These countries were also able to create the massive infrastructure that this growth made mandatory. It is important for Ghana, ECOWAS and other African countries to work hard to replicate these achievements.

8:5:0 Ghana's Economic Growth And Development

As discussed in chapter 6 of the study, Ghana's economic structure consists of the Agriculture, Industries and Services sectors.

8:5:1 Agriculture

When President Jerry Rawlings took power in Ghana for the second time in 1981, he did what few Heads of State had done before him. He listened to the farmers of Ghana, seeking at village level the popular support for his coups d'etat. Eighteen years later, he was still railing during rural political rallies at the injustices suffered by the 60% and over Ghanaians involved in farming who contribute some 47% of GDP to the economy.

Some reports by the United Nations Food and Agriculture Organisation (FAO)

observed improvements in Ghana's agriculture - the number of hungry Ghanaians being reduced since 1980 from more than 60% to just 10%; exports of both traditional and non-traditional goods have risen dramatically (See Appendix 10 and chapter 6). A recent World Bank report put Ghana's agricultural growth around an average of 2% a year, representing a little more than recovery to output levels in the 1970s.

However, as seen in Figure 6-1 in the study, the agriculture sector of the economy has been overshadowed by the services sector of the economy. Agriculture output has been falling and Ghana still struggles to meet its domestic food requirements. The country's food-import bill for items such as rice, meat, fish and sugar runs at nearly US$ 2 million a year. This is not helpful to the investment attraction and economic development aspirations of the country, since hard earned and scarce foreign exchange would be used in importing these basic food items. As mentioned earlier in the thesis, there is the need for Ghana to transform primitive farming practices into modern mechanised types, which can help increase output for both consumption and export. Export of these products would earn valuable foreign exchange for the country [(MacDougall (1960) Meier (1976 and 1984)] and contribute positively to its economic growth and development as observed by Ahiakpor (1990) and Clower et al (1966).

8:5:2 Industries

Closely linked to the inadequate performance of agriculture in Ghana is the problem of transformation of raw materials (agriculture and other natural resources) into semi-processed, processed or manufactured goods as suggested by Kirzner (1973) and Adam Smith (1976). As seen in Figure 6-1, Ghana's industrial sector has been the poorest performer for eighteen years. Poor rural marketing and inadequate infrastructure [(Rostow, (1971), Lewis (1954), Todaro (2000)], storage and processing facilities mean up to a third of what is produced is left to rot during seasonal gluts. While agro-processing industries have been encouraged, only 13% of the total output is processed. What activities there are such as canning pineapples, tuna and tomatoes, are only carried out at a fraction of capacity.

Part of the problem has been the lack of coherent vision, both among aid donors and government on how to promote transformation of these primary produces. To address this, the government of Ghana needs to vigorously pursue FDI to help set up the industries which can help such transformation of raw material into processed and manufactured goods for export. Cocoa, timber, fruits, and other produces which, for example, increased in production by 200% between 1991 and 1997 needed to be processed for both domestic consumption and export and the presence of FDI could help in this transformation. Government strategy, therefore, has to involve FDI attraction in addressing this since if Ghana is to come near the goal of reaching middle-income status by 2020, agriculture and

industrial development will play a pivotal role. But this government strategy will have to recognise that until a more stable macro-economic climate as described by Dunning, (1973a), Hood and Young (1979) is achieved, there are only limited prospects for attracting FDI, trade and other resources for building on improvements already made.

In the author's interview with respondent ***H,*** she said, *"Exports become an engine of growth and economic development when the industrial structure is 'right' or growth inducing."* There is, therefore, the crucial need for the facilitation of growth inducing industries and diversification of production structure (Kirzner (1973) Adam Smith (1976) by Ghana and the other ECOWAS trading nations.

8:5:3 Services

Figure 6-1 shows the services sector of Ghana's economy to have overtaken agriculture and industry in 1984 and 1991 respectively in performance. The services sector concentrates on tourism, hotels, financial and other services. However, as observed earlier in the thesis, if the tourist industry - the strongest player in the services sector - is to sustain its accelerated growth, much more has to be done for the country's development preconditions; infrastructure for example. The statistical tests conducted in chapter 7 revealed infrastructure to positively influence the attraction of FDI into Ghana.

A closer look at Ghana shows that the country's tourist industry has a lot more to do before it can attract larger numbers of European and American holidaymakers although the number of tourists from these regions is rising steadily, boosted by Ghana's reputation for friendliness and political stability (Constitutional Rule since 1992) in an otherwise turbulent region. The worst bottleneck for the industry, however, is the shortage of 'adequate' accommodation, a problem that has prevented big delegations such as that of President Bill Clinton of the USA in 1998 from staying in Ghana overnight. This problem, however, is being tackled with several hotel building and expansion projects in the capital, Accra and elsewhere within the country; but there is the need for more FDI to be attracted to help in these hotel expansion projects. For when these are accomplished, Ghana would have the potential of earning significant amounts of foreign exchange [(MacDougall (1960)] through tourism, with which the country's national income distribution for better living standards of its people, and yet more development projects could be pursued.

8:5:4 Trade

Ghana is seen as a useful staging post. The economy has been liberalised and the country is more peaceful and less chaotic than most of its West African and African neighbours. Above all, it lies within the ECOWAS community, which theoretically allows companies based in Ghana to trade freely in the neighbourhood. But while non-traditional exports (See Appendix 10) have more than doubled in the past six years to about US 400 million, gold and cocoa

continue to contribute nearly 70% of export receipts. High oil prices have helped push up imports, creating a trade deficit that could increase in the future, unless the trade structure changes in favour of exports. Ghana could seek FDI to transform production of raw material into manufactured goods [(Kirzner (1973), Adam Smith (1976)] close the trade deficit gap and enhance trade and economic development.

8:6:0 Supervision To Reduce Environmental Damage

To damage the environment in the process of industrialising a country for economic development - as occurred in Europe, North America and Asia – is bad enough. To do so before achieving prosperity is even worse. That is the risk Ghana faces today. With the economy still "struggling" to maintain consistent growth, Ghana's environment - and several industries that could contribute to the future economic success and development including logging and tourism – is threatened by deforestation, de-certification and pollution. Ghana and the other ECOWAS countries' investment attraction, trade promotion and economic growth policies and practices would need to seek greater supervision and assistance from world environmental agencies, such as *Greenpeace,* to reduce environmental damage, and to improve health and safety standards in the various manufacturing industries throughout the region.

8:7:0 Need For Further Research

8:7:1 Introduction

In this ever-changing modern world of business, in which investment, trade and many other economic activities are engendered by the introduction of advanced technology, it would be less prudent to be complacent with existing models, policies and frameworks without further research and development work for the future. This is even worse when, as in the case of LDCs such as Ghana and the other ECOWAS countries, economic development is poor.

Further research on the ways and means of attracting investments and developing and expanding trade in Ghana and other developing countries need to be carried out. Theories and models such as those developed very long ago by renowned scholars such as Rostow, (1971) Lewis, (1954), Harrod and Domar (1950), Heckscher and Ohlin (1933), Stolper and Samuelson (1941), Ricardo (1817) etc. need to be improved upon and, perhaps, modernised to fit the purposes of countries of all regions; and further research in these areas would be useful.

8:7:2 Areas For Further Research

As discussed earlier on in the study, some of the main obstacles in the way of an efficient investment attraction and trade promotion for economic development in an LDC such as Ghana have been difficulties of inadequate infrastructure, non skill-based education, inconsistent trade promotion activities, inflation, political

instability (workers unrests) and other development preconditions. Throughout Ghana and the other ECOWAS countries, there exist high levels of disparity in areas such as inflation levels, literacy levels, economic growth, per capita income, GDP, etc. These short falls have been exacerbated by differing political and economic problems in individual countries. The recent civil wars in Sierra Leone, Liberia and Guinea Bissau are just some of these political problems.

On the economic front, while countries like Côte d'Ivoire and Ghana achieved 6.0% and 5.0% economic growths respectively in 1998, countries such as Guinea Bissau and Togo achieved 0.5% and 0.1% economic growth respectively (African Development Bank, 1998) (See also Table 3-1).

Consequently, whilst it may be comparatively smooth for Côte d'Ivoire, for example, to enter into an intra regional trade agreement with Ghana with the confidence of being paid for the goods sold, the same may not be necessarily said of Guinea Bissau and Togo entering into such trade agreements with Côte d'Ivoire or Ghana without payment problems. This is because Côte d'Ivoire and Ghana have better levels of investment, trade and economic growth than Guinea-Bissau and Togo as presented in Table 3-1.

More research is, therefore, required by Ghana and the other ECOWAS countries, particularly in areas of reducing the fears, apprehensions, uncertainties, concerns, doubts, etc. that these investment, trade and economic

disparities may engender. It is important that research also finds ways and means of bringing the weaker ECOWAS countries to the levels of their comparatively stronger economies through increased FDI attraction and vigorous trade promotion for the production of manufactured goods for export as suggested in Figure 5-3.

8:7:3 Specific Areas For Further Research

(a) Common Trade And Economic Policies

Whilst Ghana and some ECOWAS countries continue to progress with the implementation of macro-economic policies such as trade liberalisation, free markets with the objective of attracting more FDI into their countries, sometimes with the help of international bodies such as the IMF, other member countries such as Liberia and Sierra Leone are not. This is due to wars, power struggles and political instability in these countries. This engenders non-convergence in macro-economic policies and practices, particularly in areas such as exchange rates, profit repatriation of FDI companies [(Hood and Young (1979) Bornschier (1980)] pricing, non-interference, etc.

There is, therefore, the need for Ghanaian and ECOWAS economists to research further into the ways and means of getting all member countries to adopt and practice similar macro-economic policies, which are currently helping countries like Ghana and Côte d'Ivoire to win some FDI into their respective countries.

(b) The Francophone / Anglophone Divide

There appears to exist, to some degree, an 'unpublished' rivalry between Francophone ECOWAS countries and their Anglophone counterparts. The Francophone countries appear to be closer to themselves - they use the same currency, have a common airline (Air Afrique) and a monetary union - and Paris, than they are with their Anglophone community members. The Francophone alliance with ECOWAS on the whole seems to be weakening while their alliance with Paris continues to get stronger than ever. In fact, there is talk in some circles of a possible Francophone ECOWAS countries' stock exchange in West Africa in the near future. If this becomes a reality, co-operation between the Francophone and the Anglophone countries in all areas of investment, trade and economic development will suffer badly. Intra regional trade will not be at its best, and the whole investment and trading community will lack that vital commonality of purpose.

There is, therefore, an urgent need for research into the ways and means by which ECOWAS countries could get rid of this divide as soon as possible. The research should suggest ways that Francophone countries can be very active members of ECOWAS, working closely together with their Anglophone counterparts and still continue their friendship with Paris.

(c) Excessive Dependence On Former Colonial Powers

Ghana and the other ECOWAS countries still depend on their former colonial

powers for investment and trade. For example, the UK is Ghana's biggest trading partner. Similarly, France is Côte d'Ivoire's biggest trading partner. There are certainly investment and trade opportunities in other countries such as the Netherlands, Canada, the United States of America, Japan, etc.

There is the need for research by Ghana and the other ECOWAS countries, first to find ways of breaking loose from the excessive and total investment and trade, and in some cases, economic dependence on the former colonial powers. Secondly, to establish ways of finding and engaging in investment and trade activities with other developed countries of the world. The usefulness of this research, when successful, would be the ability of Ghana and the other ECOWAS countries to have a variety of options in regard to foreign investment and trading opportunities with other developed countries other than the *status quo*. This could increase their chances of more FDI inflows into these countries helping them to increase their production of manufactured goods for export, trade and economic development.

(d) The African Caribbean Pacific Agreement - ACPA (Lome Convention)

The ACPA-Lome Convention that allows developing countries such as those of Ghana and the other ECOWAS countries to enjoy trading concessions - e.g. preferential trade agreements on reduced tariffs - within the EU expired in the year 2000. The question is how prepared is Ghana and the other ECOWAS countries towards trade with the EU without these concessions, if the agreement

is not renewed?

There is the need for research into this important area of Ghana within ECOWAS' trade, which clearly is vital to the realisation of the country's objective of a more developed and expanded trade.

(e) The Global Trading World

The international trading and business environment today is global and scientific. Traditional ways of conducting trade and business have fast given way to more scientific and technical ones. Modes of transferring payments from one country to another, commodities and futures markets as well as stock markets of the world all operate via electronic satellites. Most of the developing countries of Latin America and East Asia have all studied and joined this highly technical way of conducting international business. Ghana and the other ECOWAS countries' investment attraction and trade promotion policies and practices for the enhancement of economic growth and development need to do the same.

There is, therefore, the need for Ghana and the other ECOWAS countries' policy makers to continually research into finding ways and means of keeping abreast with these global trends and technological advancements. Ghana and ECOWAS investment, exporters, traders, buyers, etc. should be encouraged and helped to build up capabilities of employing these technical and highly efficient systems in conducting their businesses. The result of such research should guide Ghana and the ECOWAS countries towards developing similar investment and trading

systems to be in line with current global standards of Information Technology.

Finally, there is the need for Ghana, within ECOWAS, to research to find out how the country's investment, trade and export can get permanently and efficiently integrated into the world trading system. For that appears to be the only way that Ghana, within ECOWAS, can occupy a unique position within the world trading system, and for the country to realise significant and sustainable economic growth and development as argued by writers such as Baker (1999), Clower,*et al* (1966), Dunning (1973a and 1993a), Ahiakpor (1990), Balasubramanyam and Salisu (1991) and Meier (1976 and1984) among others, and as has been the successful cases with the trading nations of East Asia and Latin America.

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Appendix 1

GHANA INVESTMENT PROMOTION CENTRE

STATISTICS ON REGISTERED PROJECTS

FOURTH QUARTER 1999

GENERAL COMMENTS

Since the Act 478 establishing the Centre came into effect in September 1994 the Centre has registered 972 projects mainly in the service (264), manufacturing (251), tourism (117), building and construction (83), and agriculture (82) sectors of the economy. As at December 31, 1999, the total 972 projects comprising 651 joint foreign-Ghanaian and 321 wholly foreign owned projects, were estimated to have an establishment cost of US$1.50 billion of which US$1.22 billion are foreign capital (US$389.92 million equity and US$833.84 million loans) and US$276.85 million local funding made up of US$191.91 million in equity and US$84.94 million in loans. Joint foreign-Ghanaian projects are initially capitalised at US$1.07 billion whilst wholly foreign owned projects were estimated to cost US$425.98 million. These investments were projected to generate employment opportunities for some 53,919 Ghanaians and 3,339 non-Ghanaians. Foreign capital transfers in respect of the minimum required by the law amounted to US$140.32 million.

Leading the major sources of foreign investments into the country are Great Britain with 96 and China with 83 projects. Others are India (76 projects), USA (71 projects), Germany (68 projects), Lebanon (55 projects), Korea (39 projects), Netherlands (39 projects), Italy (38 projects), Switzerland (36 projects), Canada (22 projects) and France (20 projects). From the developing countries Nigeria (20), South Africa (14) and Malaysia (10) are the main sources of investments (Table 9).

The pattern of regional distribution of projects continues to favour the Greater Accra Region with cumulative 766 (78.81%) projects out of the 972 recorded followed by the Ashanti Region with 77 (7.92%) projects (Table 7).

As at the end of the year, the Centre had made visits to 833 (92.25%) work sites; found 588 (70.59%) enterprises in operation and 117 (14.05%) in various stages of preparations to start business. Efforts are being made to contact about 128 (14.92%) enterprises that have been abandoned or cannot be traced (Table 8).

FOURTH QUARTER 1999 RESULTS

Within the fourth quarter of 1999, 52 projects were registered bringing the total in the year to 192 projects (54, 35 and 51 registered in the first, second and third quarters respectively). These projects were together estimated to have a capital outlay of US$233.88 million with the following quarterly breakdown: US$26.41 million in the first, US$30.70 million in the second, US$54.03 million in the third and US$122.74 million in the fourth.

The services sector registered 50 projects involving US$130.60 million followed by the manufacturing sector with 44 projects at the cost of US$19.23 million and tourism with 29 projects costing US$6.66 million in both foreign and local funding.

Projected employment opportunities during the period involved 3,616 Ghanaians and 539 non-Ghanaians

Appendix 2

TOTAL YEARLY GHANA GOVERNMENT UTILISED EXPENDITURE ON EDUCATION: 1966 - 1998

Million.Cedis (¢)

1966 - 1971		1972 - 1977		1978 - 1983		1984 - 1989		1990 - 1998	
1966	5.715	1972	5.881	1978	114.625	1984	135.900	1990	6,696.300
1967	6.612	1973	13.655	1979	60.729	1985	402.100	1991	4,343.890
1968	4.449	1974	33.550	1980	77.400	1986	657.700	1992	5,569.000
1969	6.149	1975	69.379	1981	82.300	1987	1.686.000	1993	6,774.300
1970	9.390	1976	102.643	1982	90.100	1988	2,358.800	1994	5,037.000
1971	11.534	1977	107.165	1983	130.110	1989	3,149.000	1995	32,367.000
								1996	181,160.000
								1997	171,550.000
								1998	409,220.000

Source: Ghana Statistical Service: Quarterly Digest of Statistics (Various Issues)

Appendix 3

TOTAL YEARLY GHANA GOVERNMENT UTILISED EXPENDITURE ON INFRASTRUCTURE: 1966 - 1998

(ROADS AND WATERWAYS, TRANSPORT, COMMUNICATIONS)

Million.Cedis (¢)

1966 - 1971		1972 - 1977		1978 - 1983		1984 - 1989		1990 - 1998	
1966	10.558	1972	21.782	1978	145.005	1984	1,683.400	1990	13,881.100
1967	16.170	1973	26.898	1979	119.987	1985	3,370.100	1991	25,713.400
1968	14.675	1974	61.409	1980	431.600	1986	3,515.900	1992	48,304.400
1969	24.424	1975	98.880	1981	260.000	1987	8,419.100	1993	62,413.300
1970	34.931	1976	146.300	1982	283.400	1988	11,435.000	1994	75,576.000
1971	40.604	1977	166.804	1983	775.200	1989	13,611.800	1995	181,243.000
								1996	181,160.000
								1997	245,682.000
								1998	321,041.000

Source: Ghana Statistical Service: Quarterly Digest of Statistics (Various Issues)

Appendix 4

YEARLY INDUSTRIAL UNRESTS IN GHANA: 1966 - 1997
(CIVIL STRIKE ACTIONS)

1966 - 1971		1972 - 1977		1978 - 1983		1984 - 1989		1990 - 1997	
1966	29	1972	10	1978	49	1984	9	1990	24
1967	41	1973	13	1979	43	1985	12	1991	24
1968	37	1974	43	1980	62	1986	19	1992	24
1969	51	1975	29	1981	69	1987	22	1993	35
1970	56	1976	46	1982	10	1988	11	1994	9
1971	79	1977	52	1983	16	1989	21	1995	25
								1996	41
								1997	35

Source: Industrial Relations in Ghana: The Law and Practice, Ghana Universities Press (1999).

Appendix 5

GHANA'S AVERAGE ANNUAL INFLATION RATES: 1966 - 1999

%

1966 - 1971		1972 - 1977		1978 - 1983		1984 - 1989		1990 - 1999	
1966	11.29	1972	10.10	1978	73.30	1984	39.60	1990	37.30
1967	8.06	1973	17.70	1979	54.20	1985	10.50	1991	18.00
1968	7.90	1974	18.13	1980	50.10	1986	24.60	1992	10.00
1969	7.31	1975	29.82	1981	116.50	1987	39.80	1993	25.00
1970	3.78	1976	56.80	1982	22.30	1988	31.40	1994	24.90
1971	8.80	1977	116.5	1983	122.80	1989	25.20	1995	59.50
								1996	46.60
								1997	27.90
								1998	17.10
								1999	12.40

Source: Bank of Ghana / Ghana Statistical Service

Appendix 6

INTERVIEW WITH MR. K. BUDU-AMOAKO GHANA'S TRADE COMMISIONER TO LONDON AT THE GHANA HIGH COMMISSION LONDON ON THE RESEARCHER'S FIELD VISIT TO HIS OFFICE IN DECEMBER 1997

Interviewer: Interviewer: Lawrence M. Akwetey, PhD Student,
Middlesex University Business School. London, England

Duration of Interview: 90 minutes

Q. In an article written by D, Fielding in the *Journal of Development Economics, Vol.52, 1997*, Fielding observed that trade reforms in Africa appear to be accompanied by fall in investment. Do you agree with this observation?

A. No, I do not agree with this observation in its general sense. What developing countries such as Ghana and ECOWAS need to bolster their trade and economic performances at the moment is foreign investment. There has been a steady inflow of foreign investments into Ghana, and so far, these have been direct results of vigorous investment, trade and economic reforms currently being pursued by the country.

Q. Is it only Ghana that is winning foreign investments into the ECOWAS trading community?

A. No; I believe countries like Côte d'Ivoire, Senegal and Benin – who are all currently implementing the IMF and World Bank macro-economic policies are all winning foreign investment into their countries. Foreign investments in Côte d'Ivoire, for example, have helped that country increase its capability of producing manufactured goods and semi-processed agriculture products for export. Foreign investment is helping the country in prospering for oil and natural gas in the south-eastern part of the country. When this is successful, Côte d'Ivoire's export trade in both primary and manufactured products will receive a great boost.

Q. Mr. Trade Commissioner, one of my research objectives is to develop a workable Ghana Investment And Trade Framework, applicable to all ECOWAS countries; how feasible do you think this is?

A. That is the sort of idea and area that I personally have been suggesting to Ghana and ECOWAS policy makers to step up research in. Yes, the development and expansion of Ghana and ECOWAS' trade and exports for economic development is achievable. The precedence has been set in East Asia where the trading nations of this region developed and expanded their trade and economic performances to achieve very good investment, trade and economic results. These countries, not very long ago, have been developing countries themselves – just like the ECOWAS countries. So if they can do it, surely Ghana and ECOWAS can do it too.

Q. But how exactly do you think Ghana and ECOWAS countries can achieve this?

A. Ghana and other ECOWAS countries can achieve this by engaging in vigorous investment and trade promotion campaigns to attract foreign investments into the region. These countries currently do not appear to have the ideal and attractive infrastructure, macro-economic and financial policies that attract sufficient FDI from overseas. Capital, technology and skilled labour are also lacking in most of these countries. Hence the ECOWAS countries are not properly equipped to manufacture consumer goods such as television sets, hi-fi systems, computers, refrigerators, cars, etc.
Take the examples of South East Asian counties such as Taiwan, Malaysia, South Korea and Singapore. With the help of significant FDI from Japan, Europe and North America, these countries manufacture and export computers, television sets, cars – DAEWOO cars from Korea and PROTON cars from Malaysia as well as other consumer goods into Europe, North and Latin America. As I have said earlier, when such activities are replicated within Ghana and the other ECOWAS countries, similar results could be achieved in Ghana and within ECOWAS, which will boost trade and economic development in the region.

Q. If it is so attractive and straightforward, why are ECOWAS countries not fully embarking on this strategy?

A. Well, you know Africa as a whole is riddled with political stability, macro economic as well as infrastructure problems. There are insufficient vital development preconditions on the continent to attract investments. Most foreign investors look for political stability, for example, before committing any investment anywhere on the continent.
But having said that, most ECOWAS countries have returned to democratically elected governments. This very much gives hope that, development preconditions and vigorous investment, trade and export promotion activities will be engendered to create an enabling investment climate, sufficient enough to

attract FDI for industrialisation and manufacturing of manufactured goods for export to enhance economic growth. Even then, these investors would still monitor for some time how politically and economically stable the country they have committed the initial investment to before deciding to invest more in that country. So it is not all that straightforward after all.

Q. What has Ghana done to attract FDI into the country?

A. Ghana was one of the first ECOWAS member countries to begin implementing the IMF and World Bank's trade investment and macro-economic reforms. This was complemented by trade promotion activities to attract investment into the country. You see, Lawrence, Ghana and ECOWAS would never develop or expand its investment and trade, unless the region attracts a significant number of foreign companies who will bring with them into the region, finance, technology, skilled labour and everything that the region needs to quickly transform from exporters of primary commodities to exporters of manufactured goods. Ghana and the other ECOWAS countries have to take the adoption and implementation of " investment attraction and trade promotion" policies seriously and at very high levels in governments.

Q. You mentioned vigorous trade promotion activities; what do you really mean by this?

A. During 1994/1995, the Ghana Investment Promotion Centre produced the "1995 Free Zone Bill." The bill was designed as a trade promotion tool to help attract FDI into the country. Embedded in this bill were the attraction of private infrastructure for manufacturing, tax concessions for foreign companies investing in the country, free transfer of dividends and equal status for foreign and domestic investors.

The Ghana government also embarked on the "Ghana Gateway Programme" in 1996. This programme was designed to make Ghana the trade and investment "gateway" to West Africa. Through the Gateway Programme, export-processing Zones in Tema, Sekondi and Takoradi have been set up. Two of these ports (Tema and Takoradi) have been made Free Ports.

The government then targeted a number of potential foreign investors through a series of trade and investment exhibitions, fairs, both regionally and overseas. These fairs take place here in the United Kingdom and where I am directly in charge.

We had about eight trade exhibitions in the United Kingdom in 1996. It is hardwork, but these vigorous trade and investment promotion activities are working reasonably well for Ghana at the moment. However, better planning and more sponsorship are required to achieve better results.

Q. Do these foreign investments in the Ghana help increase the level of export and trade in the country?

A. Yes, there were real trading results that confirmed the crucial need and benefits of attracting FDI into Ghana. The output of manufactured goods progressed arithmetically, if you wish to use that terminology:, US$ 223.03 million exports of manufactured goods, US$ 2.93 million of handicrafts, 1,595 ounces of gold, US$ 612 million cash value of gold and £8,450 million worth of canned tuna in 1997. These are very good results for the country although more foreign investment is required to improve upon these achievements.

Q. Are other ECOWAS countries adopting the same investment, trade, development and expansion policies?

A. I know only of Côte d'Ivoire, which is also pursuing the same trade and investment promotion activities like Ghana. Like Ghana, Côte d'Ivoire has put in place many incentives such as tax concessions, easy and free repatriation of profits, equal status for foreign and domestic investing companies, etc.

Q. What is your personal vision for Ghana and ECOWAS in the new millennium?

A. I am quite optimistic about Ghana's investment and trade development and expansion in the next millennium. We are confident of attracting even more FDI into the country and stepping up vigorous trade and investment promotion activities.
In regards to the ECOWAS trade region, that is the $64,000 question. It is clear that all the fifteen countries have different levels of economic growth. The smaller member countries such as Guineas Bissau, Cape Verde and the very large but poor ones such as Mali and Burkina Faso, have disappointing levels of trade and economic growth. Countries like Ghana and Côte d'Ivoire are well ahead of these countries in terms of trade, investment and economic growth. To me, this is where the difficulty lies: 'Incorporation' of all fifteen economies at the same trade, investment and economic playing levels.
Nevertheless, I believe a proper investment and trade framework which would work out well in a corporate manner for all these countries to attract significant FDI for projects to expand manufacturing for the export of manufactured goods in the region, could do the trick. Also, efforts by the bigger ECOWAS countries such as Ghana, Nigeria and Côte d'Ivoire, to educate, train and help these countries begin the implementation of IMF and World Bank proposals would be useful. A corporate effort by all fifteen countries to embark upon vigorous investment, trade and export promotion activities to attract significant levels of FDI like Ghana and Côte d'Ivoire are currently doing, would be steps in the right direction and be highly catalytic to a brighter ECOWAS trade, investment and economic development in the next millennium.

Appendix 7

INTERVIEW WITH MR ERIC AMENUVOR , PRINCIPAL COMMERCIAL OFFICER EXPORT DIVISION MINISTRY OF TRADE AND INDUSTRY ACCRA GHANA ON THE RESEARCHER'S FIELD TRIP TO WEST AFRICA IN JANUARY 1997

Interviewer: Lawrence M. Akwetey, PhD Student, Middlesex University Business School. London, England

Duration of interview: 60 minutes

Q. What has been Ghana's investment attraction and trade promotion in recent times?

A. *The objective of Ghana's investment and trade policy has been the creation of a buoyant and self-sustaining investment climate to support the trade and export sector by expanding the export base through the vertical and horizontal diversification of the product range, with emphasis on value addition. The centrepiece of this policy has been the building up of some development preconditions, e.g. infrastructure and the promotion of the non-traditional exports with the traditionals still playing a significant but diminishing role, whist at the same time pursuing efficient and effective import management practices.*

Q. Are there any institutional constraints that inhibit your efforts in attracting investments and promoting exports?

A. *There used to be institutional constraints in areas such as bureaucratic administrative procedures, lack of foreign exchange difficulties, underdeveloped infrastructure, difficulties with land use rights and other aspects of the export trade that we have been grappling with over the years. However, it is significant to mention here that in recent times, these constraints have been gradually resolving themselves and is thus preparing the way for us to embark on a more meaningful investment and export trade drive.*

Q. Which countries, overseas and intra-regionally, constitute Ghana's most important markets?

A. Within the ECOWAS sub-region, Nigeria and Côte d'Ivoire are our most important markets. On the overseas markets' front, the countries of Western Europe dominate our trade. The United Kingdom is our largest trading partner, followed by Germany, the Netherlands, France, Italy and Switzerland. The United State of America is our third largest trading partner in merchandise trade after the United Kingdom and Germany.

Q. What plans does your Ministry (Ministry of Trade And Industry) have in place to explore and exploit investment and trade potentials in other countries?

A. As a developing African country, Ghana has a lot of trade potentials in other countries through various preferential market opportunities. Arrangements like the ACP-EU Lome Convention, the Global System of Trade Preferences Among Developing countries and the ECOWAS Trade Liberalisation Scheme, just to mention a few, give Ghana's export prices a competitive edge due to reduced tariff rates.
Our plans to exploit these potentials should entail the building of competitive export supply capabilities and aggressive investment, trade and export promotion. These are the challenges facing us, and to which the Ministry and the Ghana Investment Promotion Council (GIPC) are doing their best to address.

Q Does your Ministry have specially targeted markets for Ghana's goods?

A. The promotion of Intra-African trade, particularly ECOWAS trade, is very important to the Ministry. The Ghana Government has signed agreements with other African countries on co-operation, which have become known as the 'Permanent Joint Commission for Co-operation'. These trade agreements place emphasis on trade co-operation and promotion. We have about 14 such agreements with other African countries – including most ECOWAS member countries.
Our Gateway Programme is targeted to the West African market of over 200 million people. The vast USA market is also of importance to us for the promotion of our non-traditional products and, of course, we need to consolidate our positions in the European market.

Q. What are the main trends and Ghana's role within ECOWAS and Intra Regional Trade?

A. The ECOWAS Treaty places special emphasis on trade among member states to achieve the objective of a progressive establishment of a customs union through trade liberalisation. However, there has not been any significant growth

in intra-community trade and investment; inter-community trade currently accounts for only about 6% of the whole region's trade.
Member countries have not reduced tariff and non-tariff barriers as set out on the agreed timetable and, moreover the trade protocol has not been given legal status in some countries.
Sub-regional trade has not grown within the last 22 years as expected. However, Ghana has been playing a lead role in all areas of co-operation outlined under the ECOWAS Treaty. Ghana is one of the few countries that have ratified all the 29 protocols annexed to the treaty. Ghana has started preferential rates of import duties for products that qualify under the ECOWAS Trade Liberalisation Scheme (ETLS). The protocol of free movement of persons has become operational in Ghana. Ghana has also been promoting her products within the ECOWAS region, and more than 30 Ghanaian companies have qualified to transact business under the ETLS.

Q. What measures have been put in place to support the main ECOWAS Treaty?

A. At the sub-regional level, a number of supportive measures have been put in place for the ECOWAS Treaty and the ETLS. These include the following:

- *(a) a protocol on free movement of goods, the right of residence and establishment of trading or business activities*
- *(b) harmonised customs instruments*
- *(c) procedure for compensation and revenue as a result of liberalisation*
- *(d) a programme of road and communication infrastructure*
- *(e) a convention on inter-state transport and vehicle insurance*
- *(f) a programme for monetary co-operation*

Q. What issues / bottlenecks have your Ministry / Department identified as major obstacles to Intra Regional trade?

A. The major issues that we have identified as obstacles to Intra-Regional trade include the following:

- *(a) the continued existence of entrenched trade channels, patterns and practices between ECOWAS states and their former metropolitan centres; i.e. former colonial powers*
- *(b) the non-convertibility of currencies in the sub-region*
- *(c) lack of adequate market information and knowledge*
- *(d) lack of export incentives*
- *(e) high tariff and non-tariff barriers designed to protect local industries*
- *(f) high levels of smuggling and unrecorded or informal trade*

Q. Does your Ministry have any suggestions that could help Ghana and ECOWAS overcome some of these problems?

A. Conscious efforts should be made by all countries to implement the protocols that govern trade within the sub-region. There should also be exchange of information and knowledge particularly between the various Chambers of Commerce to enhance private sector activities.
All governments should overhaul the West African prospects mechanism in a co-ordinated manner to help facilitate prospects for trade transactions throughout the trading community.

Q. Does your Ministry / Department participate in Trade Fairs and Exhibitions organised by ECOWAS and other Overseas Organisations?

A. Individual ECOWAS countries have been organising Trade Fairs and Exhibitions, and Ghana participated in most of these fairs. The first ever ECOWAS Trade Fair will be organised in Dakar (Senegal) in March, and Ghana will definitely be present. Infact, Ghana is scheduled to organise the second ECOWAS Trade fair in Accra from February to March 1999.
Concerning the Overseas Trade Fairs, Ghana's participation has been rather inconsistent due to lack of resources and adequate planning.

Q. How does the participation in these ECOWAS Trade Fairs differ from your Ministry's organisation and participation in Overseas Trade Fairs?

A. Fairs and exhibitions organised within the ECOWAS sub-region are mostly generalised fairs, whilst those organised in Europe, for example, are product specific fairs and can also help attract investment into Ghana. Secondly the European Union or other donor agencies such as the DTI of the United Kingdom, the GTZ of Germany or the CFD of France particularly sponsor the fairs in which Ghana participates overseas, for example.
But like I said earlier, these sponsorships are not sufficient, and Ghana's participation in overseas trade fairs has been rather poor and inconsistent.

Q. Has there been any donor support for Ghana's trade programmes in terms of trade and industry enhancement?

A. The United States of America government in particular has been implementing a US$ 80 million trade and investment programme in Ghana. The programme has been instrumental in addressing key issues of identifying and rectifying the constraints and weaknesses in the export sector.
The World Bank has also started a US$ 41 million Private Enterprise and export development Programme in the country to enhance the competitiveness of the export sector. United Nations Industrial Development Organisation (UNIDO) has also been involved in the industrial sector within its strategic management of the industrial development programmes.

Q. Has the Private Sector been involved in any of these Programmes?

A. Most of the programmes narrated above are targeted at the private sector with a small percentage of the funds being released for institutional capacity building in the public sector.

Q. What are some of the plans and programmes that your Ministry or organisation has put in place to attract private investment to the industrial sector? e.g. FDI

A. The Ghana Investment Promotion Centre (GIPC) Act of Parliament and other enabling legislation have been enacted to promote investments in the Ghanaian economy. The Act confers on investor-attractive incentives, concessions and benefits within clearly defined eligibility criteria. The Ghana Gateway Programme is also being implemented to position Ghana as the gateway to the West African sub-region. The programme consists of export processing zones, free ports and a liberalised investment policy which will enable investors to use Ghana as a base to manufacture value-added products, assemble, package and store wholesale goods as well as distribute food to the West African sub-region.
This will also attract investors to set up financial, banking, telecommunications and transport services (vital investment attraction development preconditions) in the country.

Q. Does your Ministry, through Central Government, have immediate plans to switch from the predominant production and export of primary commodities to more value added processing and manufacturing industries for the export of manufactured goods?

A. Ghana has recognised the need for industrial transformation of natural resources, particularly through agro-based industries as well as the promotion of resource-based industries. Measures are being taken to enhance value addition for agricultural products. These include the establishment of rural technology centres to facilitate the production, provision, and maintenance of agricultural machinery, implements, tools, equipment, fertilisers, etc. and rehabilitating existing agro-based industries in terms of processing, technology, quality control, packaging, storage, marketing and distribution.
The sub-sectors earmarked for the value addition include wood processing, textiles and food processing and rubber products.

Q. Do ECOWAS countries, particularly your country Ghana, enjoy any international co-operation for mutual technology transfers, either between fellow ECOWAS countries or overseas countries of Europe and North America?

A. The Ghana Investment Promotion Centre has signed investment promotion and protection agreements with various countries including the United

Kingdom, France, the Netherlands, etc. Arrangements are in the pipeline to sign similar agreements with the United States of America and Côte d'Ivoire. Technology transfer constitutes an integral part of these arrangements.

Q. Which are the major trading and investment countries of the world that have been interested in Ghana within the last four years and in which areas?

A. The major trading and investing countries that have been interested in Ghana within the last four years, in order of merit are the United Kingdom, Germany, India, the United States of America, China, Lebanon, the Netherlands, Switzerland, Italy and Korea.
Investments have been in the fields of agriculture, building and construction, export trade, manufacturing and tourism.

Appendix 8

INTERVIEW WITH ALHAJI A.ABUBULAI, MANAGING DIRECTOR OF SABARY ENTERPRISES (GH) LTD. ACCRA ON THE RESERCHER'S FIELD TRIP TO GHANA IN December 1998

Interviewer: Interviewer: Lawrence M. Akwetey, PhD Student,
Middlesex University Business School. London, England

Duration of Interview: 90 Minutes

Q. What are some of the difficulties that Ghana and ECOWAS Entrepreneurs / Exporters like you experience?

A. Most of the difficulties that my business experiences are in the areas of international transfer of money for payment purposes, unnecessary customs barriers – particularly among ECOWAS countries – convertibility of Ghana and other ECOWAS currencies for trading purposes, artificially created bureaucracy among government departments as well as capital generation for business enlargement purposes.

Q. How do you think, from your own experience, these difficulties could be resolved and by whom?

A. We exporters in this country think governments in all West Africa (not Ghana alone) should promote and bring about an efficient operation of all government departments – particularly those that deal with trade and export, the removal of all unnecessary custom barriers within the sub-region, a convertible currency within the region to facilitate our trade as well as the free movement of people, goods and services - as is currently the case within the European union.

Q. Which trading countries of the world are your company's export target markets?

A. Within the ECOWAS countries, Nigeria and Burkina Faso are my main export markets. Within Europe, most of my company's exports go to the United Kingdom, Germany and the Netherlands.

Q. How successful has your company been in exporting to these countries?

A. Despite all our problems, my company last year exported commodities such as cashew nuts to Burkina Faso and Kola-nuts to Nigeria in great quantities. In Europe, we exported scrap metals e.g. copper, zinc, aluminium and refined aluminium ingots to the United Kingdom, Germany and the Netherlands.

Q. How do you see your company contributing to the Ghana trade and investment development and expansion activities within Ghana and the other ECOWAS countries?

A. It is our company's desire to add value added products e.g. processed agriculture products and semi-manufactured goods to our line of exports. We also have the desire of processing some of the metals that we export into processed goods such as aluminium cooking utensils, cutlery and other household ware. By this, my company hopes to be contributing greatly to the improvement of the supply capability of trade and export of Ghana and within the ECOWAS sub-region. The difficulties with these objectives, however, include lack of capital, skilled labour and technology, which, I believe, foreign investors could do well to bring into Ghana if the right development preconditions exist in the country.

Q. What suggestions do you have for Ghana and ECOWAS investment and trade policy makers towards the achievement of these goals?

A. Ghana and ECOWAS trade policy makers should come out with policies that create the enabling environment for investment, trade and business to flourish without hindrance in the region. Also, Ghana and ECOWAS investment and trade policymakers should find ways and means of introducing a common convertible currency for the region to enhance investment attraction and trade and export transactions. Ghana and ECOWAS policy should also encourage and ensure that the IMF's macro-economic policies that Ghana and Côte d'Ivoire are currently implementing to get implemented in all other ECOWAS countries. High inflation rates in member countries should be brought down and increased infrastructure, improved education and political stability should be encouraged to help create an attractive investment climate within the region.

Q. What are your views on the ETLS?

A. I think the whole idea - judging from its current operations - is a "Red Herring". Some ECOWAS governments are not prepared to implement some of the 15 protocols of the ETLS. This makes it difficult to achieve a commonality of purpose as far as the ETLS, and for that matter, ECOWAS trade is concerned.

Q. Do you think the ECOWAS Fund is operating to your company's advantage and satisfaction?

A. No. Very few countries contribute to this fund. It might well be a waste of time.

Q. What do you envisage as Ghana and ECOWAS' future trade with the developed countries of Europe and North America, for example?

A. So far as ECOWAS remains a strong trading community and links its operations with other or on similar patterns of other trading communities such as ASEAN, NAFTA, SADC, etc., I think trade within the region can get integrated within the World Trading System and compete with other trading nations in this and similar areas.
With special references to Europe and North America, I believe such a position of Ghana and ECOWAS within the World Trading System would open more doors for Ghana and the trading community to win more FDI and trade opportunities from the developed countries of the world.

Q. How helpful do you think FDI will be to trade development and expansion within ECOWAS?

A. Extremely helpful!. FDI investments, i.e. MNCs are surely the companies that could help solve Ghana and ECOWAS' investment problems e.g. capital, technology and communications, skilled labour, marketing, etc. when they import these vital inputs into our country and region. However, it is important to stress that these ECOWAS countries create the 'right' investment climate, which would serve as incentives that attract these potential foreign investors into the country.

Q. Would you personally allow your company to enter into a Joint Venture with any FDI Investing company from overseas?

A. Absolutely! I say yes because such as Joint Venture will create the brightest opportunity yet for my company to assume a new shape and standard for the better. Much of the funding, technological know-how and the skilled labour that my company lacks and desperately needs at the moment could all be provided through Joint Venture with a partner from the developed countries.

Q. You said earlier in the interview that your company exports to the ECOWAS countries of Nigeria and Burkina Faso. Are there any special reasons for targeting these countries?

A. In the case of Nigeria, two main factors attract me to target this market. First, the country's ability to provide payment for the goods my company exports. Second, the demand for these commodities in Nigeria is higher than any other country within ECOWAS.

With regards to Burkina Faso, the factors are a combination of easy transportation from Ghana, the ability to pay for the goods as well as the commodities constituting the major staple food item within the country.

Q. What mode of transportation (e.g. airfreight, shipping, road travel, etc) does your company use to transport these goods?

A. We mainly use shipping and travel by road.

Q. What difficulties have you experienced with any of these modes?

A. With the road travel, we usually have difficulties with corrupt police barriers, not-very-good international roads, and unnecessary customs interference at countries' borders. We also experience language difficulties at times. With the shipping mode, our major problems have been with the documentation of shipping paperwork – which is usually unnecessarily delayed - and congestion at Nigeria's main seaports in Lagos.

Q. What do you think relatively smaller ECOWAS member countries (e.g. Cape Verde, Guinea Bissau, Burkina Faso) should do to be able to feature more prominently in the trade, investment and export expansion-building process within the community?

A. First of all these countries need to engender the presence of vital development preconditions such as infrastructure (roads, waterways, communication, information technology, transportation, etc.) and sound macro-economic policies in their countries to attract potential investors. Secondly, these countries should embark on vigorous trade promotion activities that attract FDI investors into their respective countries. Companies in these countries could also form Joint ventures with relatively bigger businesses and companies in other ECOWAS countries.
Governments of these countries should be seen to spearhead these campaigns (as are currently the cases in Ghana and Côte d'Ivoire) and where comparatively more success is achieved, encourage the production of semi-processed agriculture goods as well as manufactured goods for export.

Q. Is there anything, in your view companies like yours can do to help similar companies in these smaller countries?

A. Like I said a few moments ago, these companies could enter into joint ventures with other companies within the ECOWAS trading community. My company, for example, would be willing to enter into such joint ventures.

Q. Has your company learnt anything at all from the huge investment, trade and export success story of the companies within the East Asia trading communities? If so, what are some of these lessons?

A. Of course! The main lesson, the underlying lesson that we have learnt from East Asia's investment, trade and export success story is how crucial and efficient Foreign Direct Investment operations for the production and manufacture of diversified (manufactured) goods for export are for a country and also in economic development. Ghana, Côte d'Ivoire and Senegal, appear to me to be currently leading ECOWAS countries on a similar road. I hope other ECOWAS countries follow suit and become successful like the trading nations of East Asia.

Appendix 9

Central Government Accounts

Total Recurrent and Development Expenditures

Functional Classification

(Million Cedis)

	1994	1995	1996	1997	1998
GENERAL SERVICES					
General Public Services	168,188	214,339	340,469	376,370	480,449
Defence	36,147	58,823	87,562	102,877	163,149
Public Order & Safety	50,449	64,235	97,403	117,331	168,866
Total	254,784	337,397	525,434	596,578	812,464
COMMUNITY AND SOCIAL SERVICES					
Education	213,901	330,394	463,872	553,286	707,050
Health	55,803	111,545	126,845	129,827	191,459
Social Security & Welfare Services	82,587	141,119	173,770	209,831	229,881
Housing & Community Amenities	33,326	24,700	39,084	42,502	75,828
Recreational, Cultural & Religious Services	17,343	23,834	38,938	43,949	68,395
Total	402,959	631,592	842,509	979,395	1,272,613
ECONOMIC SERVICES					
Fuel and Energy	1,525	585	10,744	11,364	17,064
Agriculture, Forestry & Fishing	18,950	28,679	35,539	41,166	52,381
Mining, Manufacturing & Construction	29,762	13,296	21,939	18,007	20,875
Roads & Waterways	81,331	189,837	270,610	258,595	332,240
Other Transport & Communication	6,321	4,658	6,360	5,316	6,893
Other Economic Services	19,778	25,914	39,972	36,666	62,189
Total	157,667	262,969	385,164	371,114	491,642
OTHER PURPOSES					
Interest on Public Debt	230,146	328,781	579,276	843,213	1,076,398
Transfers to Other Levels of Government	44,755	65,282	87,304	114,673	97,783
Emergency Fund	-	21,255	-	-	-
Other - Special Efficiency Fund	50,998	51,425	26,592	3,992	764
Total	325,902	466,741	693,172	961,878	1,174,945
Grand Total	1,141,312	1,698,700	2,446,279	2,908,965	3,751,664

Appendix 10

GHANA EXPORT PROMOTION COUNCIL

COMPARISON OF EXPORT PERFORMANCE OF NON-TRADITIONAL PRODUCTS FOR THE PERIOD

JANUARY TO JUNE 1998 AND 1999

QUANTITY IN METRIC TONNES

UNLESS OTHERWISE STATED

PROVISIONAL

PRODUCT	JANUARY TO JUNE 1998					JANUARY TO JUNE 1999					% CHANGE IN QTY 1999/1998	% CHANGE IN VALUE 1999/1998
	NO OF PRODUCTS	NO OF EXPORTERS	QUANTITY	VALUE IN US DOLLARS	% CONTRIB.	NO OF PRODUCTS	NO OF EXPORTERS	QUANTITY	VALUE IN US DOLLARS	% CONTRIB.		
NON-TRAD. PRODUCTS:TOTALS	277	2,131		200,735,134.59	100.00%	240	1,740		179,611,705.02	100.00%		-10.52%
OF WHICH												
AGRICULTURAL PRODUCTS	77	1,056		43,919,948.98	21.88%	68	841		40,095,291.86	22.32%		-8.71%
PROCESSED & SEMI-PROCESSED PRODUCTS	189	964		154,246,254.10	76.84%	162	820		136,456,295.07	75.97%		-11.53%
HANDICRAFTS	11	111		2,568,931.53	1.28%	10	79		3,060,118.09	1.70%		19.12%
BREAKDOWN												
AGRICULTURAL PRODUCTS:TOTALS	77	1,056		43,919,948.96	100.00%	68	841		40,095,291.86	100.00%		-8.71%
OF WHICH												
HORTICULTURAL PRODUCTS:TOTALS	35	709		10,027,295.83	22.83%	30	592		13,278,811.44	33.12%		32.43%
OF WHICH												
PINEAPPLE	1	45	12,466.900	4,825,540.80	10.99%	1	37	18,248.100	6,663,406.37	18.62%	30.33%	38.09%
AVOCADOES	1	2	0.252	421.01	0.00%	1	5	2.818	1,199.25	0.00%	938.89%	184.85%
MANGOES	1	19	87.534	55,564.79	0.13%	1	25	132.411	84,441.26	0.21%	51.27%	51.97%
PLANTAIN	1	92	283.191	69,841.52	0.16%	1	81	230.810	78,727.81	0.19%	-18.50%	10.18%
BANANA	1	2	1,388.844	1,256,933.00	2.86%	1	1	1,624.910	1,236,230.26	3.08%	16.99%	-1.85%
FLORICULTURAL PDTS (FLOWERS)	1	2	5.177	6,912.25	0.02%	1	2	0.374	1,116.65	0.00%	-92.78%	-83.85%
COCONUT	1	2	60.888	50,552.83	0.12%	1	3	17.979	7,814.20	0.02%	-70.46%	-84.54%
MIRACLE FRUITS						1	2	0.731	512.00	0.00%		
PAWPAW	1	12	392.912	336,082.41	0.77%	1	18	907.156	644,194.00	1.61%	130.88%	91.68%

PRODUCT	JANUARY TO JUNE 1998					JANUARY TO JUNE 1999					% CHANGE IN QTY 1999/1998	% CHANGE IN VALUE 1999/1998
	NO OF PRODUCTS	NO OF EXPORTERS	QUANTITY	VALUE IN US DOLLARS	% CONTRIB.	NO OF PRODUCTS	NO OF EXPORTERS	QUANTITY	VALUE IN US DOLLARS	% CONTRIB.		
SUGAR CANE	1	2	66.500	22,661.20	0.05%	1	2	0.220	103.00	0.00%	-99.67%	-99.55%
GRAPEFRUIT FRESH	1	1	1.360	680.00	0.00%							
MUSHROOMS & TRUFFLES	2	1	0.040	30.00	0.00%							
LIME/LEMON	2	3	231.503	44,779.08	0.10%	1	4	48.845	14,375.22	0.04%	-78.90%	-67.90%
BERRIES	1	5	41.113	11,547.90	0.03%	1	1	0.610	130.43	0.00%	-98.52%	-98.87%
ORANGES	1	4	412.283	72,557.15	0.17%	1	2	94.240	22,773.06	0.06%	-77.14%	-68.61%
ASSORTED FRESH FRUITS	1	1	0.056	10.00	0.00%	1	1	0.020	200.00	0.00%	-64.29%	1900.00%
ONION/SHALLOTS	2	27	65.716	21,568.55	0.05%	1	28	12.858	2,878.06	0.01%	-80.43%	-86.66%
OKRA	1	35	10.836	6,246.52	0.01%	1	34	21.280	17,297.60	0.04%	94.59%	176.82%
GARDEN EGGS	1	113	518.769	194,823.91	0.44%	1	88		341,819.24	0.85%		75.45%
MARROW	1	8	15.999	6,639.82	0.02%	1	7	12.502	6,539.00	0.02%	-21.86%	-1.52%
BEANS	1	30	178.510	91,312.80	0.21%	1	24	127.873	79,955.13	0.20%	-27.87%	-12.44%
GUAR	1	2	1.097	386.00	0.00%	1	6	2.133	1,411.12	0.00%	94.44%	265.58%
PEARS & QUINCES	2	2	0.134	34.84	0.00%	1	1	0.021	27.00	0.00%	-84.33%	-22.50%
PEPPER	1	67	952.606	397,715.71	0.91%	1	58		738,372.13	1.84%		85.65%
TINDA	1	22	525.666	167,942.06	0.38%	1	22	706.785	195,943.85	0.49%	34.46%	16.67%
TOMATOES	1	5	410.185	98,001.08	0.22%	1	3	89.270	35,501.74	0.09%	-78.24%	-63.77%
FRESH GINGER	1	18	7.699	3,589.17	0.01%	1	26	7.741	6,138.51	0.02%	0.55%	71.03%
LETTUCE/COURGETTES	1	3	0.315	106.44	0.00%	1	4	1.084	1,426.00	0.00%	244.13%	1239.72%
CUCUMBER						1	2	0.581	738.56	0.00%		
MELONS	1	2	0.080	72.00	0.00%	1	2	0.524	159.20	0.00%	482.22%	121.11%
YAMS	1	130	3,651.550	2,256,576.67	5.14%	1	91	4,568.000	3,077,631.61	7.68%	25.10%	36.38%
COCOYAM	1	51	75.441	28,306.21	0.06%	1	36	53.415	19,749.18	0.05%	-29.20%	-30.23%
POTATOE	1	1	0.380	60.21	0.00%							
FISH & SEAFOOD PRODUCTS: TOTALS	10	117		11,372,387.43	25.89%	9	50		11,135,758.33	27.77%		-2.08%
OF WHICH												
TUNA	1	5	3,752.120	3,880,187.03	8.83%	1	4	9,223.780	5,447,420.11	13.59%	145.83%	40.39%
FROZEN FISH	1	13	2,659.420	5,061,061.41	11.52%	1	10	1,230.160	2,715,097.66	6.77%	-53.74%	-46.35%
LOBSTERS/SHRIMPS/PRAWNS	2	18	53.618	248,886.80	0.57%	2	8	210.538	438,992.85	1.09%	290.49%	76.38%
CRABS	1	2	0.072	329.00	0.00%							
SMOKED/DRIED FISH	1	64	1,105.400	667,314.48	1.52%	1	20	884.106	491,908.12	1.23%	-10.87%	-26.28%
SHARK FINS	1	1	0.830	101,300.00	0.23%	1	3	0.822	1,358.00	0.00%	11.08%	-98.66%
SALTED FISH	1	8	3.241	2,467.70	0.01%	1	2	0.881	1,619.00	0.00%	-72.82%	-34.39%
CUTTLE FISH	1	5	935.619	1,329,584.92	3.03%	1	2	1,177.480	2,038,722.47	5.08%	25.85%	53.34%
OCTOPUS	1	1	39.322	81,256.09	0.19%							
AQUARIUM FISH						1	1	0.041	640.00	0.00%		
GAME & WILDLIFE: TOTALS	3	40	17.805	260,861.21	0.59%	3	27	2.624	251,124.85	0.63%	-85.10%	-3.73%

PRODUCT	JANUARY TO JUNE 1998					JANUARY TO JUNE 1999					% CHANGE IN QTY 1999/1998	% CHANGE IN VALUE 1899/1998
	NO OF PRODUCTS	NO OF EXPORTERS	QUANTITY	VALUE IN US DOLLARS	% CONTRIB.	NO OF PRODUCTS	NO OF EXPORTERS	QUANTITY	VALUE IN US DOLLARS	% CONTRIB.		
OF WHICH												
LIVE ANIMALS	1	16	13.029	256,889.30	0.58%	1	17		246,803.41	0.62%		-3.93%
SNAILS	1	22	3.805	3,274.87	0.01%	1	9	2.598	4,044.44	0.01%	-31.77%	23.50%
GRASSCUTTER	1	2	0.771	686.94	0.00%	1	1	0.028	277.00	0.00%	-96.37%	-60.25%
MEDICINAL PLANTS	2	15	324.414	1,722,084.03	3.92%	1	12	73.365	148,435.89	0.37%	-77.39%	-91.38%
COCOA WASTE	1	3	6,872.000	2,635,397.31	6.00%	1	2	4,178.000	1,507,830.38	3.76%	-39.20%	-42.78%
KOLA NUT	1	11	3,420.320	421,137.26	0.96%	1	10	1,938.550	216,866.75	0.54%	-43.36%	-48.48%
OTHER AGRIC. PRODUCTS:TOTALS	25	161		17,480,785.89	39.80%	23	148		13,556,364.22	33.81%		-22.45%
OF WHICH												
PALM NUTS	1	3	1.003	741.73	0.00%	1	3	10.044	4,013.06	0.01%	901.40%	441.04%
PALM KERNEL	1	4	5.388	855.20	0.00%	1	3	0.305	107.00	0.00%	-94.34%	-87.49%
COTTON SEEDS	1	1	4,300.000	478,400.00	1.09%	1	2	3,186.000	280,680.00	0.70%	-25.84%	-41.33%
RAW COTTON	1	2	1,054.110	8,535,400.00	19.43%	1	1	240.204	1,500,000.00	3.74%	-77.21%	-82.43%
KONTOMIRE	1	19	28.632	8,674.33	0.02%	1	30	32.038	8,225.84	0.02%	11.89%	-8.34%
MAIZE	1	19	19,787.900	1,077,428.48	2.45%	1	11	8,559.230	366,178.59	0.91%	-66.85%	-66.01%
MILLET	1	1	50.547	4,281.91	0.01%	1	1	28.891	2,181.26	0.01%	-42.84%	-49.06%
POULTRY FEED	1	1	20.000	2,879.74	0.01%	1	1	22.500	919.93	0.00%	12.50%	-68.06%
CASSAVA	1	2	0.300	82.00	0.00%	1	3	12.842	4,052.50	0.01%	4114.00%	4842.07%
ASSORTED FOOD ITEMS	1	1	14.600	30,255.20	0.07%							
GROUNDED PEPPER	1	12	1.201	682.40	0.00%	1	8	2.780	1,253.56	0.00%	131.47%	83.70%
AGUSHIE/MELON SEEDS	2	27	20.201	17,850.32	0.04%	1	20	13.942	8,638.61	0.02%	-30.98%	-51.61%
APPLE SEEDS	1	3	2.280	866.01	0.00%							
EGGS	1	2		5,621.43	0.01%							
CASSAVA CHIPS	1	1	0.400	21.15	0.00%	1	1	0.052	20.00	0.00%	-87.00%	-5.44%
GROUNDNUT	1	4	6.203	1,630.56	0.00%	1	6	14.938	4,694.27	0.01%	140.82%	187.89%
RICE	1	1	1.394	319.41	0.00%	1	2	0.214	274.71	0.00%	-84.65%	-13.99%
NATURAL HONEY	1	1	0.519	421.01	0.00%	1	3	0.444	208.00	0.00%	-14.45%	-50.59%
TIGER NUTS	1	2	0.869	350.00	0.00%	1	4	32.948	28,471.29	0.07%	3691.48%	8034.65%
ROBUSTA COFFEE	1	14	4,189.980	4,802,255.06	10.93%	1	15	4,094.290	5,084,479.71	12.68%	-2.28%	5.88%
CASHEW NUTS	1	6	1,115.120	649,189.00	1.48%	1	4	4,028.830	2,771,715.00	6.91%	261.29%	326.95%
COPRA						1	1	478.000	152,320.00	0.38%		
CANE SUGAR						1	1	205.895	77,842.43	0.19%		
DESSICATED COCONUT						1	1	5,038.800	85,000.00	0.18%		
CORN HUSK/STRAW	2	30	6.290	1,514.83	0.00%	1	24	10.576	1,821.80	0.00%	68.14%	20.26%

PRODUCT	JANUARY TO JUNE 1998					JANUARY TO JUNE 1999					% CHANGE IN QTY 1999/1998	% CHANGE IN VALUE 1999/1998
	NO OF PRODUCTS	NO OF EXPORTERS	QUANTITY	VALUE IN US DOLLARS	% CONTRIB.	NO OF PRODUCTS	NO OF EXPORTERS	QUANTITY	VALUE IN US DOLLARS	% CONTRIB.		
SHEANUTS	1	5	6,934.380	1,860,788.12	4.24%	1	3	12,190.700	3,193,266.66	7.96%	75.80%	71.61%
PROCESSED & SEMI-PROCESSED PRODUCTS : TOTALS	189	964		154,246,254.10	100.00%	162	820		136,456,295.07	100.00%		-11.53%
OF WHICH												
WOOD & WOOD PRODUCTS:TOTALS	11	143		31,300,470.82	20.29%	10	159		37,187,173.38	27.25%		18.81%
OF WHICH												
FURNITURE & PARTS	2	11	1,205.740	4,753,423.31	3.08%	1	5	1,155.930	4,275,837.19	3.13%	-4.13%	-10.05%
WOOD CHARCOAL	1	2	734.720	121,492.24	0.08%	1	1	566.915	100,175.09	0.07%	-22.84%	-17.55%
BUILDERS WOOD WORK	1	70		6,032,831.12	3.91%	1	95		9,657,848.66	7.08%		60.09%
WOODEN COFFIN	1	1	0.120	250.00	0.00%							
PLYWOOD	1	16		1,747,132.28	1.13%	1	17		4,207,138.54	3.08%		140.80%
MATCH SPLINT						1	1	63.640	44,880.00	0.03%		
BROOMSTICK	1	2	8.985	7,532.01	0.00%	1	3	38.449	72,771.83	0.05%	285.84%	866.17%
CHEWING STICK	1	6	268.045	43,485.54	0.03%	1	2	119.495	17,316.40	0.01%	-55.42%	-60.18%
SLICED VENEER	1	19		13,031,136.68	8.45%	1	15		12,286,915.69	9.00%		-5.71%
ROTARY/RECONSTITUTED VENEER	1	15	7,387.130	5,429,473.53	3.52%	1	18		6,168,634.37	4.52%		13.81%
WOODEN POLES	1	1	143.000	133,714.10	0.09%	1	2		355,555.61	0.26%		165.91%
ALUMINIUM PRODUCTS:TOTALS	7	31		8,077,081.83	5.24%	3	21		5,459,180.23	4.00%		-32.41%
OF WHICH												
ALUMN SHEETS/PLATES & COILS	3	7	2,076.510	4,703,422.09	3.05%	1	5	1,552.440	2,315,571.68	1.70%	-25.24%	-50.77%
ALUMN HOUSEHOLD UTENSILS	1	15		3,208,413.02	2.08%	1	13		3,062,747.09	2.24%		-4.54%
ALUMINIUM LOUVRE FRAMES	1	3	14.520	13,901.72	0.01%	1	3	45.962	80,861.46	0.06%	216.54%	481.67%
ALUMINIUM CASKS, DRUMS, CANS ETC	1	2	52.480	138,448.78	0.09%							
ARTICLES OF ALUMN nes	1	4	3.559	12,896.22	0.01%							
COMMON SALT	1	40	20,228.000	1,109,643.17	0.72%	1	39	32,497.200	1,894,467.84	1.39%	60.65%	70.73%
METAL SCRAPS (NON-FERROUS)	6	8	1,782.270	1,478,918.89	0.96%	8	9		974,770.53	0.71%		-34.09%
PROCESSED NATURAL RUBBER SHEETS	1	3	3,162.190	2,154,445.32	1.40%	1	2	2,747.330	2,032,620.82	1.49%	-13.12%	-5.65%
PREPARED FOODS, BEVERAGES ETC.	22	57		40,910,762.94	26.52%	15	59		39,862,179.91	27.01%		-9.90%
OF WHICH												

PRODUCT	JANUARY TO JUNE 1998					JANUARY TO JUNE 1999					% CHANGE IN QTY 1999/1998	% CHANGE IN VALUE 1999/1998
	NO OF PROOUCTS	NO OF EXPORTERS	QUANTITY	VALUE IN US OOLLARS	% CONTRIB.	NO OF PRODUCTS	NO OF EXPORTERS	QUANTITY	VALUE IN US DOLLARS	% CONTRIB.		
PALM NUT CREAM SOUP	1	4	71.228	339,450.30	0.22%	1	10	162.413	275,478.69	0.20%	128.02%	-18.85%
CANNED VEGETABLES NES						1	4	84.668	86,711.79	0.06%		
JAMS, MARMALADES	1	1	0.043	300.00	0.00%							
TUNA CANNED	1	7	12,675.200	39,985,691.38	25.92%	1	6	15,252.800	33,633,795.45	24.65%	20.34%	-15.89%
COCOA POWDER	1	5		415,993.40	0.27%	1	8	529.968	468,090.61	0.34%		12.52%
COCOA PREPARATIONS nes	1	1	0.800	328.76	0.00%							
COCOA PDTS/CHOCOLATES	1	7	36.448	57,187.05	0.04%	1	4	14.900	28,300.28	0.02%	-59.12%	-50.50%
PEPPER PUREE/CANNED SHITO	1	2	1.540	675.00	0.00%	1	2	1.890	1,712.09	0.00%	22.73%	153.64%
CANNED SNAILS	1	1	1.122	5,000.00	0.00%							
SPIRITS (ALCOHOL)	1	2	0.520	332.16	0.00%							
PALM WINE	1	2	3.560	5,704.52	0.00%	1	2	5.607	33,077.12	0.02%	57.50%	479.84%
BEER/GUINESS	2	4	64.404	47,060.00	0.03%	1	6	27.762	14,941.42	0.01%	-56.89%	-68.25%
PEELS(FRESH FRUITS)	1	1	15.000	824.00	0.00%	1	1	83.333	1,848,275.54	1.35%	455.55%	**********
GIN /GENEVA/WHISKY	2	2	3.057	4,289.53	0.00%	1	1	22.347	108,551.59	0.08%	631.01%	2442.47%
MARGARINE	1	2	2.230	3,562.15	0.00%	1	2	34.170	27,053.42	0.02%	1432.29%	659.47%
SOFT DRINKS	1	1	200 CTNS	1,355.95	0.00%	1	2		660.00	0.00%		-51.33%
RUM AND TAFIA	2	1	90 CTNS	881.11	0.00%							
FRUIT JUICE nes	1	3	32.564	11,065.12	0.01%	1	3	18.176	21,393.80	0.02%	-50.33%	93.34%
PREPARED CEREALS	1	9	8.819	19,927.39	0.01%	1	8	44.314	84,040.21	0.06%	414.14%	321.73%
PINEAPPLE JUICE	1	2	32.564	11,085.12	0.01%	1	2	173.060	230,097.92	0.17%	431.45%	1979.49%
OTHER PROCESSED & SEMI- PROCESSED												
PRODUCTS : TOTALS	141	682		89,214,931.13	44.87%	126	531		52,045,902.36	38.14%		-24.81%
OF WHICH												
TERAZZO CHIPPINGS	1	2	68.200	5,215.72	0.00%	1	2		100,111.36	0.07%		1819.42%
AGRI. FOOD PROC. MACHINERY	1	1	3.040	5,289.10	0.00%	1	2	2.320	8,085.33	0.00%	-23.68%	15.05%
ALAFIA BITTERS	1	3	5.634	8,143.00	0.01%	1	4	3.694	9,150.28	0.01%	-34.43%	12.37%
ALUMS	1	1	6.250	1,781.58	0.00%							
AMMONIUM NITRATES	1	4		25,323.49	0.02%	1	2	115.450	41,653.35	0.03%		64.49%
ANAGO SOAP	1	11	137.353	37,648.22	0.02%	1	6	35.894	14,071.97	0.01%	-73.87%	-62.62%
ARSENIC TRIOXIOE	1	1	1,318.030	33,036.00	0.02%	1	1	1,503.720	37,291.00	0.03%	14.09%	12.88%
ARTICLES OF PLASTICS nes	1	18		2,117,209.75	1.37%	1	7	969.789	1,900,185.63	1.39%		-10.25%
ASBESTOS SHEETS	1	5	17.704	47,671.38	0.03%	1	3		2,545.62	0.00%		-94.66%
BALL POINT PEN	1	1	58.930	58,370.31	0.04%	1	3	19.646	118,330.35	0.09%	-66.66%	102.72%
BATHS/BASINS/PANS	3	2	3.675	1,998.49	0.00%							
BICYCLES	1	4	5.070	53,940.57	0.03%	1	3	0.770	37,849.49	0.03%	-84.81%	-29.83%
BISCUITS						1	3	143.640	240,758.48	0.18%		
BLANKETS	1	2	2.237	13,462.38	0.01%	1	1	0.400	200.00	0.00%	-82.12%	-98.51%
BODY CREAMS	1	10	268.373	277,668.08	0.18%	1	11	205.198	291,201.94	0.21%	-23.54%	4.87%

PROOUCT	JANUARY TO JUNE 1998					JANUARY TO JUNE 1999					% CHANGE IN QTY 1999/1998	% CHANGE IN VALUE 1999/1998
	NO OF PRODUCTS	NO OF EXPORTERS	QUANTITY	VALUE IN US DOLLARS	% CONTRIB.	NO OF PRODUCTS	NO OF EXPORTERS	QUANTITY	VALUE IN US DOLLARS	% CONTRIB.		
BREAD	2	37	21.700	4,620.91	0.00%	1	29	18.750	5,646.57	0.00%	-13.59%	22.20%
BUILDING STONE						1	2		1,512.12	0.00%		
CANDLES						1	2	31.812	14,323.12	0.01%		
CARTONS/BOXES/CASES	1	7	130.237	125,830.42	0.08%	1	6	256.128	129,078.28	0.09%	96.66%	2.58%
CASSAVA FLOUR	1	35	38.486	19,634.28	0.01%	1	29	98.772	43,480.54	0.03%	156.64%	121.45%
CAUSTIC SODA	1	2	1.400	702.07	0.00%	1	1	0.420	334.29	0.00%	-70.00%	-52.39%
CEMENT	1	1	0.064	100.00	0.00%	1	1	6,429.190	400,858.41	0.29%		
CHALK	1	1	100 CTNS	956.14	0.00%	1	2	0.140	1,975.92	0.00%		106.66%
CHEMICAL FERTILIZER	1	2	115.000	18,177.91	0.01%	1	1	7.000	2,450.00	0.00%	-93.91%	-86.52%
CHILDREN'S WEAR	1	1	0.496	2,600.00	0.00%							
CIGARETTES	1	1	34.404	266,050.00	0.17%	1	2	149.944	752,043.22	0.55%	335.83%	182.67%
COCOA BUTTER	1	5	10,998.000	31,853,094.97	20.85%	1	3	5,626.780	18,300,264.24	13.41%	-48.84%	-42.55%
COCOA CAKE	1	2	12,765.500	2,337,529.65	1.52%	1	3	6,101.780	1,279,836.70	0.94%	-52.20%	-45.25%
COCOA LIQUOR	1	2	2,684.000	5,705,501.70	3.70%	1	1	1,700.000	2,874,914.61	2.11%	-36.66%	-49.61%
COCONUT FIBRE	1	2	119.982	17,623.00	0.01%	1	2	139.810	13,000.00	0.01%	16.53%	-26.23%
COCONUT OIL & IT'S FRACTIONS	1	3	81.807	72,494.80	0.05%	1	2		7,559.80	0.01%		-89.57%
COMPUTER STATIONERY	1	2	4.304	20,530.87	0.01%	1	3		818,444.18	0.60%		3878.70%
COPPER WIRE	1	1	17.169	50,529.47	0.03%							
CORN DOUGH	1	71	82.642	22,490.86	0.01%	1	47	73.876	28,489.47	0.02%	17.56%	26.67%
CORN FLAKES/BREAKS/POPS	3	1	85.000	553.91	0.00%							
COTTON FABRICS(PRINTED)	1	3	149.037	454,477.86	0.29%	1	2	164.625	830,260.11	0.61%	10.48%	82.68%
CROWN CORKS	1	2	1.444	4,593.46	0.00%	1	2	3.677	1,810.00	0.00%	154.64%	-60.60%
DEODORANT	1	2	7.555	1,390.82	0.00%							
DISCARDED SANDALS	1	1	1.398	900.00	0.00%							
DRIED CLAY	1	1	10.240	483.89	0.00%	1	1	0.086	1,000.00	0.00%	-99.36%	106.66%
DRY CELL BATTERIES	1	1	0.391	716.02	0.00%	1	1	0.455	815.64	0.00%	16.37%	14.02%
ELECTODE	1	3	15.150	11,088.29	0.01%	1	4		229,834.30	0.17%		1976.51%
ELECTRIC BULBS	1	1	4.000	4,469.74	0.00%	1	2	0.143	13,077.34	0.01%	-96.43%	192.57%
ELECTRICAL APPLIANCES nes	1	3	11.315	7,474.46	0.00%	1	1	5.480	73,864.09	0.05%	-51.57%	888.22%
FISHING/MOSQUITO NET	1	3	43.030	69,311.44	0.04%	1	3		25,687.32	0.02%		-62.92%
FLOOR COVERINGS	1	2	0.150	620.20	0.00%	1	1	418.000	1,617.53	0.00%		160.81%
FOOD FLAVOUR	1	7	29.562	38,922.54	0.03%	1	5	30.689	41,865.19	0.03%	3.81%	7.84%
FOOTWEAR nes	1	2	24.584	73,701.00	0.05%	1	2	13.871	35,526.34	0.03%	-43.58%	-51.80%
GARI	1	65	915.501	198,663.73	0.13%	1	41		119,412.95	0.09%		-39.28%
GARMENTS/CLOTHING nes	2	1	33.130	855,331.93	0.55%	1	2	70.541	1,255,322.16	0.92%	112.92%	46.76%
GAS COOKER	1	2	0.235	17,943.12	0.01%	1	1	2.496	13,477.71	0.01%	962.13%	-24.89%
GLASS BOTTLES/JARS						1	2	385.060	164,650.88	0.12%		
GLASSWARES nes	1	3	1.840	4,778.55	0.00%	1	1	0.010	2,589.20	0.00%	-99.46%	-45.78%
GLOVES						1	1	5.220	24,000.00	0.02%		
GLYCEROL (GLYCERINE)	1	1	140.000	5,000.00	0.00%	1	1	100.000	41,881.76	0.03%	-28.57%	737.64%

PRODUCT	JANUARY TO JUNE 1998					JANUARY TO JUNE 1999					% CHANGE IN QTY 1999/1998	% CHANGE IN VALUE 1999/1998
	NO OF PRODUCTS	NO OF EXPORTERS	QUANTITY	VALUE IN US DOLLARS	% CONTRIB.	NO OF PRODUCTS	NO OF EXPORTERS	QUANTITY	VALUE IN US DOLLARS	% CONTRIB.		
GROUNDNUT PASTE/ROASTED	2	20	5.578	7,290.28	0.00%	1	13	5.468	4,489.08	0.00%	-1.97%	-38.42%
HAIR PRODUCTS	1	8	183.044	565,783.11	0.37%	1	3	395.357	1,324,498.36	0.97%	115.99%	134.10%
HINGES	1	1	11.725	1,006.87	0.00%							
HYDRATED LIME	1	1	2,019.230	430,880.57	0.28%	1	2	2,113.370	485,845.04	0.36%	4.66%	12.76%
ICE CREAM	1	1	14.208	7,187.62	0.00%							
INNER TUBES	1	1	0.620	1,277.11	0.00%	1	1	0.080	83.58	0.00%	-87.10%	-93.46%
INSECTICIDES	1	3	93.336	185,764.14	0.12%	1	1	0.920	3,260.49	0.00%	-99.01%	-98.24%
INSULATION SHEETS	1	2	1.630	23,700.59	0.02%	1	2		646,141.92	0.47%		2626.27%
INTRAVENOUS INFUSIONS	1	2		53,086.44	0.03%	1	1	135.121	211,392.67	0.15%		298.20%
IRON RODS	1	3	1,633.830	533,176.94	0.35%	1	3	455.857	141,585.91	0.10%	-72.10%	-73.44%
KAOLIN						1	1	0.010	5.73	0.00%		
KENKEY	1	48	28.802	5,135.25	0.00%	1	33	30.470	7,401.39	0.01%	13.69%	44.13%
LANTERN GLOBES	1	3	69.013	62,822.32	0.04%	1	3	53.225	77,490.33	0.06%	-22.88%	23.35%
LANTERNS	1	1		2331.82	0.00%	1	2		7892.02	0.01%		238.45%
LEAD BARS/RODS/OXIDE						1	1	42.500	18,430.00	0.01%		
LEATHER BELT						1	1	0.350	1,375.30	0.00%		
LEATHER BAGS	1	2	6.510	27,297.16	0.02%	1	2	0.270	18,748.06	0.01%	-95.85%	-31.32%
MACHINE PARTS	1	2	0.235	52,048.11	0.03%	1	1	3.870	7,933.06	0.01%	1548.81%	-84.76%
MATCHES	1	2		22,719.97	0.01%	1	2		175,129.56	0.13%		670.82%
MATCHETS/CUTLASS	1	4	147.323	163,788.92	0.11%	1	3	139.038	245,415.58	0.18%	-11.73%	49.84%
MATS	1	4		85,529.47	0.06%	1	2	76.365	10,429.00	0.01%		-87.81%
MEDICAMENTS	1	2	17.298	77,081.69	0.05%	1	3		66,781.54	0.05%		-13.36%
MILK	1	2		141,852.39	0.09%	1	3	24.982	40,827.08	0.03%		-71.24%
MINERAL WATER	1	3	58.616	78,916.92	0.05%	1	4		36,511.41	0.03%		-54.31%
MOTOR BIKES	1	2	7.295	17,135.33	0.01%	1	2	11.494	14,644.00	0.01%	57.56%	-14.54%
NAILS	1	5	133.854	87,294.41	0.06%	1	5		33,869.72	0.02%		-65.19%
NAPKINS	1	3	6.745	7,530.64	0.00%	1	1	5.500	22,418.05	0.02%	-18.46%	197.88%
NITROUS OXIDE GAS	1	1	6.716	28,208.48	0.02%	1	1	8.789	46,176.18	0.03%	30.87%	83.70%
NYLON THREAD	1	1	1.400	3,160.79	0.00%	1	1		1,133.49	0.00%		-64.14%
OXYGEN GAS	1	2		990.33	0.00%	1	1		150.00	0.00%		-84.85%
PADLOCKS/LOCKS	2	3	3.755	9,765.72	0.01%	1	2	8.011	597.52	0.00%	113.34%	-93.88%
PAINTS/VANISHES	2	3	28.190	10,210.71	0.01%	1	4	89.040	19,126.64	0.01%	215.86%	87.32%
PALM KERNEL CAKES						1	1	2,012.000	70,737.27	0.05%		
PALM KERNEL OIL	1	1	88.000	64,031.19	0.04%	1	2	336.620	238,999.00	0.18%	243.49%	273.25%
PALM OIL	1	78	22,568.100	15,373,240.92	9.97%	1	61		9,116,959.70	6.68%		-40.70%
PERFUMES/COSMETICS nes	1	3	32.563	54,133.86	0.04%	1	3	5.919	3,460.11	0.00%	-81.82%	-93.81%
PLASTIC BASKET	1	1	41.703	108,143.19	0.07%							
PLASTIC TANKS/BINS/DRUMS ETC	1	3	8.030	8,880.30	0.00%	1	2	34.900	50,193.70	0.04%	286.49%	651.37%
POLYSTERENE	1	2		10,387.49	0.01%	1	1	13.963	57,718.45	0.04%		456.73%
POTATOE CHIPS						1	1	3.380	9,720.00	0.01%		

PRODUCT	JANUARY TO JUNE 1998					JANUARY TO JUNE 1999					% CHANGE IN QTY 1999/1998	% CHANGE IN VALUE 1999/1998
	NO OF PRODUCTS	NO OF EXPORTERS	QUANTITY	VALUE IN US DOLLARS	% CONTRIB.	NO OF PRODUCTS	NO OF EXPORTERS	QUANTITY	VALUE IN US DOLLARS	% CONTRIB.		
POLYTHENE BAGS/ROLLS	1	5	37.567	39,672.90	0.03%	1	6	59.107	116,508.80	0.09%	57.34%	193.67%
POTASSIUM BROMATE						1	1	15.750	8,624.25	0.01%		
PRINTED MATTER	1	4	29.135	105,199.58	0.07%	1	4	23.215	80,466.13	0.06%	-20.32%	-23.51%
POWDERED SOAP						1	1	200.780	123,080.00	0.09%		
PROCESSED TOBACCO	1	2	117.660	167,044.73	0.11%	1	2	90.125	226,237.25	0.17%	-23.40%	35.44%
PUTTE	1	1	0.110	17,126.60	0.01%	1	1	2.300	1,636.15	0.00%	1990.91%	-90.45%
PVC ORBE	1	3	13.550	20,418.80	0.01%							
RAZORS & RAZOR BLADES	2	2	1.285	11,919.76	0.01%	1	1	0.713	11,900.49	0.01%	-44.51%	-0.16%
ROPES	1	1	6.520	6,666.08	0.00%	1	1	0.044	100.00	0.00%	-99.33%	-98.50%
SACKS /BAGS	1	9		516,900.46	0.34%	1	6		519,156.56	0.38%		0.44%
SAFETY GLASS						1	1	0.550	2,852.42	0.00%		
SAND PAPER	1	2	1.900	149.41	0.00%	1	2		3,842.79	0.00%		2471.88%
SEWING THREAD	1	4	15.448	78,523.69	0.05%	1	3	0.585	4,550.82	0.00%	-96.21%	-94.20%
SHAMPOO	1	2	0.422	83.10	0.00%	1	1	18.000	24,853.30	0.02%	4165.40%	29807.70%
SHAWLS/SCARVES/MUFFLERS	3	1	0.564	2,332.82	0.00%	1	1	0.035	160.07	0.00%	-93.79%	-93.14%
SHEABUTTER	1	7	506.505	637,788.53	0.41%	1	7	625.673	625,534.05	0.46%	23.53%	-1.92%
SHIRTS	1	4	5.803	58,559.38	0.04%	1	3		240,241.54	0.18%		310.25%
SLIPPERS	1	5	29.677	94,358.48	0.06%	1	1	10.851	137,831.49	0.10%	-63.44%	46.07%
SODA ASH	1	2	18.920	4,098.89	0.00%							
SOYA BEAN OIL	1	1	34.000	25,500.00	0.02%							
STAINLESS STEEL SCRAPS	1	2	381.410	40,057.00	0.03%	1	1	457.129	72,195.50	0.05%	19.85%	80.23%
STEEL BILLETS	1	2	2,945.000	789,050.00	0.51%	1	2	2,855.000	707,709.00	0.52%	-3.06%	-10.31%
STIFF	1	1	11.490	12,367.10	0.01%	1	1	12.970	19,053.51	0.01%	12.88%	54.07%
SUGAR CONFECTIONERY	1	4	26.190	48,901.64	0.03%	1	4		63,157.43	0.05%		29.15%
SUGAR						1	1	698.325	302,185.38	0.22%		
SYRINGES, NEEDLES, CATHETERS	1	1	0.250	800.00	0.00%	1	1	2.185	16,185.50	0.01%	774.00%	1923.19%
TABLE FAN						1	2	1.019	34,031.53	0.02%		
THINNER	1	2	5.540	40,516.09	0.03%	1	2	101.810	30,337.48	0.02%	1737.73%	-25.12%
TILES	1	2	21.200	5,951.79	0.00%	1	2	31.694	8,604.16	0.01%	49.50%	44.56%
TOILET ROLLS	1	2	109.805	105,249.35	0.07%	1	3	45.140	95,856.39	0.07%	-58.89%	-8.92%
TOILET SOAP	1	6		277,309.84	0.18%	1	2		114,538.09	0.08%		-58.70%
TOOTHPASTE	1	3	3.181	13,724.38	0.01%	1	2	19.580	77,493.21	0.06%	515.53%	464.64%
TORCHLIGHT	1	3	1.162	19,257.51	0.01%	1	1	0.100	3,118.41	0.00%	-91.39%	-83.81%
TOWEL	1	1	0.218	14,642.74	0.01%	1	1	102.502	619,412.00	0.45%	46919.27%	4130.16%
TUBES/PIPE FITTINGS	1	1	0.990	805.82	0.00%	1	8		465,576.70	0.34%		57676.78%
UNDERPANTS & BRIEFS	2	2		74.40	0.00%							
USED CLOTHING	1	3	471.570	350,570.11	0.23%	1	3	487.791	494,531.47	0.36%	3.44%	41.06%
USED TYRES	1	3	136.894	181,545.79	0.12%	1	3		181,095.20	0.13%		-0.25%
VEHICLE BATTERY	1	3	1.485	2,203.09	0.00%	1	1		30.57	0.00%		-98.61%
VEHICLE PARTS nes	1	5	330.974	302,443.87	0.20%	1	2	600.021	519,887.71	0.38%	81.29%	71.90%

PRODUCT	JANUARY TO JUNE 1998					JANUARY TO JUNE 1999					% CHANGE IN QTY 1999/1998	% CHANGE IN VALUE 1999/1998
	NO OF PRODUCTS	NO OF EXPORTERS	QUANTITY	VALUE IN US DOLLARS	% CONTRIB.	NO OF PRODUCTS	NO OF EXPORTERS	QUANTITY	VALUE IN US DOLLARS	% CONTRIB.		
VINYL THREAD	1	1	70.840	220,268.98	0.14%	1	3	146.260	343,660.90	0.25%	106.47%	56.02%
WALL CLOCKS	1	1	400 CTNS	2,431.72	0.00%							
WATER TAPS	1	1	0.909	69.78	0.00%							
WHEAT BRAN	1	13	10,125.300	510,418.17	0.33%	1	3	11,630.500	530,605.50	0.39%	14.87%	3.96%
WHEAT FLOUR	1	4	329.922	154,772.68	0.10%	1	2	147.900	66,960.04	0.05%	-55.17%	-56.72%
WIRE NETTING	1	5	20.313	232,178.28	0.15%	1	2	0.500	2,691.80	0.00%	-97.54%	-98.84%
BISCUIT	1	4	67.361	83,711.08	0.05%							
FOAM MATRESS	1	6		687,509.70	0.45%	1	5		1,585,631.06	1.16%		130.63%
HANDICRAFT ITEMS TOTALS	11	111		2,568,931.53	100.00%	10	79		3,060,118.06	100.00%		19.12%
OF WHICH												
ASSORTED HANDICRAFTS	1	38	459.960	881,214.50	34.30%	1	26	819.588	761,141.98	24.87%	78.19%	-13.63%
BATIK PRODUCTS	1	8	12.312	72,753.20	2.83%	1	4	10.006	59,320.64	1.94%	-18.73%	-18.46%
BEADS	1	4	3.270	17,170.76	0.67%	1	4	2.664	14,100.00	0.46%	-18.53%	-17.88%
CANE PRODUCTS	1	3	13.014	8,123.51	0.32%	1	3	26.656	20,834.64	0.68%	104.83%	156.47%
CARVINGS	1	13	97.877	260,846.94	10.16%	1	8	109.153	154,012.47	5.03%	11.75%	-40.98%
EARTHENWARE BOWLS/POTS	1	14	57.304	47,294.72	1.84%	1	10		173,227.82	5.66%		266.27%
IMITATING JEWELLERY	1	2		37,699.04	1.47%	1	1	0.361	763.00	0.02%		-97.98%
PRECIOUS JEWELLERY	1	1	1.398	16,188.00	0.63%							
KENTE PRODUCTS	1	4	534.336	50,089.37	1.95%	1	4	11.432	27,000.19	0.88%	-97.86%	-46.10%
TRADITIONAL MUSICAL INSTRUMENTS	1	11	21.963	52,021.41	2.03%	1	5	19.120	76,424.77	2.50%	-12.94%	46.91%
STRAW PRODUCTS	1	13	253.814	1,125,427.08	43.81%	1	13	375.466	1,773,292.58	57.95%	47.87%	57.57%

NOTES: a) PCS-PIECES, CTNS-CARTONS, BDLS-BUNDLES, DOZS-DOZENS, PKGS-PACKAGES, LTS-LITRES, CBM-CUBIC METRES

SOURCE: EXPORT FORM (NON-TRADITIONAL PRODUCTS) FOR EXPORTS RECEIVED FROM CUSTOMS EXCISE AND PREVENTIVE SERVICE EXIT POINTS

Appendix 11

LIST OF RESPONDENTS INTERVIEWED DURING THE AUTHOR'S FIELDWORK IN WEST AFRICA AND LONDON

Respondent	NAME	ORGANISATION	POSITION
(A)	Abdulai, A.A.	Sabary Enterprises (Gh.) Ltd	Managing Director
(B)	Aglamey-PAP	Hobain Exports (Lome-Togo)	Managing Director
(C)	Agyepong, K.	Ghana Ministry of Trade & Industry	Chief. Comm. Officer-Foreign Trade
(D)	Akyea Tawiah	Ghana Export Promotion Council	Executive secretary
(E)	Addison K.	Ghana Export Promotion Council	Research Director
(F)	Amenuvor, E.	Ghana Ministry of Trade & Industry	Principal Commercial Officer (Exports)
(G)	Appiah, A.K.	Ghana Ministry of Trade & Industry	Deputy Chief Commercial Officer(Exports)
(H)	Oduro, A.	University of Ghana, Legon	Senior Lecturer in Economics
(I)	Atuahene, A.K.	Ghana Ministry of Trade & Industry	Commercial Officer – ECOWAS Section
(J)	Budu-Amoako, K.	Ghana High Commission, London	Trade Commissioner for Ghana
(K)	Wier F. (Gp. Capt.)	Ghana High Commission, London	Defence Attaché for Ghana
(L)	Haizel, JEB	Ghana Ministry of Trade & Industry	Ag. Chief Director-Trade & Investment Unit
(M)	Dzuwalska, M.	Malaysian High Commission London	Trade Marketing Officer for Malaysia
(N)	Kanon, Noel	Cote d'Ivoire Embassy London	Chief Protocol Officer

(O)	Oppong D.	Ghana Export Promotion Council	Senior exports promotion Officer (ECOWAS)
(P)	Dr Ankrah	Ghana Investment Promotion Centre	Director
(Q)	Traore, Soumana	IDA-Exports & Imports Lome (Togo)	Managing Director
(R)	Venance, Djoku	Cote d'Ivoire Embassy London	Trade Promotion Officer
(S)	Nyarko	Alluworks Gh) Limited.	Managing Director
(T)	Bukari	Ghana Ministry of Finance & Economic Planning	Senior PRO